



KVB KUNLUN FINANCIAL GROUP LIMITED
昆侖國際金融集團有限公司

(incorporated in the Cayman Islands with limited liability)

Stock code:8077

PLACING

SPONSOR



BOOKRUNNER AND JOINT LEAD MANAGER



JOINT LEAD MANAGER



IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

 **KVB Kunlun**
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PLACING

Number of Placing Shares : 343,345,000 Shares

Placing Price : HK\$0.452 per Placing Share, payable in full upon application, plus brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.003%

Nominal value : HK\$0.01 per Share

Stock code : 8077

Sponsor



Bookrunner and Joint Lead Manager



Joint Lead Manager



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed “Documents Delivered to the Registrar of Companies in Hong Kong” in Appendix V to this prospectus has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

Prospective investors should read the entire document carefully and, in particular, should consider the matters discussed in the section headed “Risk Factors” in this prospectus.

The Placing Shares are not underwritten and the Placing is managed by the Joint Lead Managers on a best-efforts basis, subject to the terms and conditions of the Placing Agreement. Prospective investors should note that the obligations of the Placing Agents under the Placing Agreement to subscribe for and to procure placees for the subscription for the Placing Shares, are subject to termination by the Sponsor or the Bookrunner (for itself and on behalf of the other Placing Agents) upon the occurrence of any of the events set forth in the paragraph headed “Grounds for termination” in the section headed “Structure of the Placing” in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date.

CHARACTERISTICS OF GEM

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

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

EXPECTED TIMETABLE (NOTES 1 AND 2)

Announcement of the level of indication
of interest in the Placing to be published
on the website of the Stock Exchange at www.hkexnews.hk and
our Company's website at www.kvblastco.com on or before Tuesday, 2 July 2013

Allotment of the Placing Shares to placees
(or their designated person(s)) on or before Tuesday, 2 July 2013

Deposit of share certificates into CCASS on or before (Notes 3 and 4) Tuesday, 2 July 2013

Dealings in the Shares on GEM to commence at 9:00 a.m. on Wednesday, 3 July 2013

Notes:

1. *All times and dates refer to Hong Kong times and dates.*
2. *If there is any change to the above expected timetable, we will make appropriate announcement on the website of the Stock Exchange at www.hkexnews.hk and on our Company's website at www.kvblastco.com.*
3. *The Share certificates are expected to be issued in the name of HKSCC Nominees Limited. Share certificates for the Placing Shares to be distributed via CCASS will be deposited into CCASS on or about Tuesday, 2 July 2013 for credit to the respective CCASS participant's stock accounts designated by the Placing Agents, the placees or their agents, as the case may be. We will not issue any temporary documents of title.*
4. *All Share certificates will only become valid certificates of title when the Placing has become unconditional in all respects and the Placing Agreement has not been terminated in accordance with its terms prior to 8:00 a.m. on the Listing Date.*

Details of the structure of the Placing, including the conditions thereto, are set out in the section headed "Structure of the Placing" in this prospectus.

The Placing Shares are not underwritten and the Placing is managed by the Joint Lead Managers on a best-efforts basis, subject to the terms and conditions of the Placing Agreement. Further details about the Placing Agents and the Placing arrangements are contained in the section headed "Structure of the Placing" in this prospectus. Should the amount of gross proceeds raised under the Placing be less than HK\$155,191,940 (being 343,345,000 Placing Shares times the Placing Price of HK\$0.452 per Placing Share), the Placing will not proceed.

CONTENT

You should rely only on the information contained in this prospectus to make your investment decision. Our Company, the Sponsor, the Bookrunner, any of the other Placing Agents, any of their respective directors, officers, employees, agents or representatives, or any other person or party involved in the Placing has not authorised anyone to provide you with information which is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Sponsor, the Bookrunner, any of the other Placing Agents, any of their respective directors, officers, employees, agents or representatives, or any other person or party involved in the Placing.

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SUMMARY AND HIGHLIGHTS

This section aims to give you an overview of the information contained in this prospectus and therefore does not contain all the information which may be important to you. You should read this prospectus in its entirety before you decide to invest in the Placing Shares. There are risks associated with any investment. Some of the particular risks in investing in the Placing Shares are set out in the section headed "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Placing Shares.

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	
	HK\$'000	% of total income	HK\$'000	% of total income
Leveraged forex and other trading	107,526	69.3	86,951	70.6
Cash dealing	12,602	8.1	9,310	7.5
Other				
Provision of management services	12,803	8.2	7,916	6.4
Fees and commission income	16,270	10.5	22,301	18.1
Interest income	1,902	1.2	1,571	1.3
Exchange gain/(loss), net	3,362	2.2	(5,343)	(4.3)
Others	777	0.5	516	0.4
Total	<u>155,242</u>	<u>100.0</u>	<u>123,222</u>	<u>100.0</u>

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 noted 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

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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.

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 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. The Sponsor has consulted with its legal advisers as to Australian law and has been advised that it is not a requirement of the ASIC that such introducing broker arrangement be either notified to or approved by the ASIC. As such, the Sponsor is not aware of anything which suggests that the introducing broker arrangement between KVB NZ and KVB AU was designed to circumvent the local securities trading and regulations.

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. 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. 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,

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respectively. The major differences between our leveraged forex and other trading business and our cash dealing business are that cash dealing is traded without any leverage and does not involve trading of indices and commodities. Please refer to the paragraph headed “Our services” in the section headed “Business” in this prospectus for more detailed description of the trading services we provide.

Other income/Loss

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.

During the year ended 31 December 2012, our Group recorded an exchange loss of approximately HK\$5.3 million while there was an exchange gain of approximately HK\$3.4 million during the year ended 31 December 2011. This was mainly due to the month-end translation of monetary assets denominated in foreign currency into local reporting currency by KVB NZ with the appreciation of NZD/USD exchange rate from approximately 0.7733 to 0.8222 during the year ended 31 December 2012.

In summary, our Group’s results of operations will be affected by the following major factors:

Major factors	Impact on our Group
Increase/decrease in market volatility	Increase/decrease in our net profit
Increase/decrease in the spread earned by our Group	Increase/decrease in our net profit
Increase/decrease in commission paid by our Group to referral parties	Decrease/increase in our net profit

The table below sets out the total income, profit for the year and cash flows from operating activities before working capital changes of our Group adjusted for the net effect of the exclusion of the Listing expenses recognised in our consolidated statements of comprehensive income and the related party transactions as laid down in note 27 to the accountant’s report in Appendix I to this prospectus and the inclusion of the Reimbursed Listing Expenses during the Track Record Period. The following table has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the total income, profit for the year and cash flows from operating activities before working capital changes of our Group during the Track Record Period or at any dates after the Listing.

SUMMARY AND HIGHLIGHTS

		Year ended 31 December	
		2011	2012
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total income		155,242	123,222
Less: Income generated by the related party transactions	1	<u>(13,473)</u>	<u>(7,955)</u>
Adjusted total income		<u><u>141,769</u></u>	<u><u>115,267</u></u>
Profit/(Loss) for the year		35,555	(1,749)
Add: Listing expenses recognised in the income statement		1,885	11,782
Less: Net income effect on related party transactions	2	(1,707)	(661)
Less: Net loss effect on the Reimbursed Listing Expenses	3	<u>(12,669)</u>	<u>–</u>
Adjusted profit for the year		<u><u>23,064</u></u>	<u><u>9,372</u></u>
Cash flows from operating activities before working capital changes		50,937	3,168
Add: Listing expenses recognised in the income statement		1,885	11,782
Less: Net income effect on related party transactions	2	(1,707)	(661)
Less: Net loss effect on the Reimbursed Listing Expenses	3	<u>(12,669)</u>	<u>–</u>
Adjusted cash flows from operating activities before working capital changes		<u><u>38,446</u></u>	<u><u>14,289</u></u>

Notes:

1. *The income generated by the related party transactions includes management fee income for the provision of group management, information technology, marketing and administration support, interest income, commission income and handling fee income.*
2. *The net income/(loss) effect on the related party transactions includes the income generated by the related party transactions, the corresponding expenses and management fee expenses for the provision of information technology support, financial system and website maintenance services, and marketing promotion and client services. The resultant taxation effect is ignored.*

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- Due to the passing away of Ms. Tsui, being a key shareholder of KVB Holdings, in October 2011, the Listing process was delayed and was resumed in June 2012. In view of the fact that some of the costs incurred in connection with the Listing prior to the resumption of the Listing process could no longer be utilised and that some of the preparation work in connection with the Listing prior to the resumption of the Listing process could not bring any economic benefit to our Company, KVB Holdings has agreed to unconditionally and irrevocably take up or reimburse our Group for the Reimbursed Listing Expenses in relation to the aforesaid preparation work. Given the Reimbursed Listing Expenses, our Group's profit for the two years ended 31 December 2011 and 31 December 2012 would be effectively increased by approximately HK\$12,669,000 and nil, respectively. The resultant taxation effect is ignored. Further information on the Reimbursed Listing Expenses is set forth in the paragraph headed "Reimbursed Listing Expenses" in the section headed "Financial Information" in this prospectus.*

MAJOR CLIENTS AND MARKET MAKERS

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 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. 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.

As at 31 December 2012, our Group had over 3,900 active clients. During the two years ended 31 December 2011 and 31 December 2012, our Group's five largest clients contributed to in aggregate approximately 29.6% and 23.3%, respectively, of our trading volume. For the same years, 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.

During the Track Record Period, the number of clients referred by referral parties increased significantly by approximately 102.9%, representing approximately 54.8% and 69.3% of our total client base and contributed to approximately 60.7% and 67.4% of our trading volume for the two years ended 31 December 2011 and 31 December 2012, respectively. The WLP arrangements, however, contributed insignificantly to our results of operations and as a result, our Group has ceased business relationships with all white label partners since September 2012.

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 to our leveraged forex and other trading business. As at 31 December 2011, 31 December 2012 and the Latest Practicable Date, we had 14, 14, and 14 market makers, respectively, who provided such services to us. 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 determined by our clients.

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Our Group's market makers, of which two, four and six of the market makers 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. No commission rebate was received by our Group from market makers during the Track Record Period. 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.

COMPETITIVE STRENGTHS

We believe that our success and potential for future growth are attributable principally to (a) our experience in serving overseas Chinese and Japanese communities; (b) our advanced technological know-how; (c) high industry entry barrier; (d) our established risk management procedures; and (e) our experienced management team and market expertise.

BUSINESS OBJECTIVES AND 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. We plan to achieve our objectives by implementing the following strategies:

- (a) expansion of operations in the worldwide overseas Chinese and Japanese communities;
- (b) increase in the range of our financial services and products;
- (c) further upgrade of our online trading platform; and
- (d) strategic growth through mergers and acquisitions.

Further information on our business objectives and strategies (and the implementation thereof) are set forth in the section headed "Business Objectives and Future Plans" in this prospectus.

CONTROLLING SHAREHOLDERS

Prior to the passing away of Ms. Tsui in October 2011, KVB Holdings had been held by Mr. Li and Ms. Tsui in equal shares. According to the laws of intestacy of Hong Kong and the private international law rules of the BVI, Mr. Li shall be entitled to 50% and the three children of Mr. Li and the late Ms. Tsui (i.e. Mr. Li Yeuk Kuk Dennis, Ms. Li Yi Dan and Mr. Li Dong Zheng) shall be entitled to share the remaining 50% of the shareholding held by Ms. Tsui's Estate in KVB Holdings in equal shares. On 30 August 2012, the Administrators transferred 25% of the issued share capital of KVB Holdings in Ms. Tsui's Estate to Mr. Li. Accordingly, Mr. Li became the legal and beneficial shareholder of 75% of the issued share capital of KVB Holdings. The remaining 25% of the issued share capital of KVB Holdings is being held in trust by the Administrators for the three children of

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Mr. Li and the late Ms. Tsui. Immediately after completion of the Capitalisation Issue and the Placing, KVB Holdings will be interested in 75% of the total issued share capital of our Company. As KVB Holdings is held as to 75% by Mr. Li, both KVB Holdings and Mr. Li are our Controlling Shareholders. Each of our Controlling Shareholders has confirmed that it/he does not have any interest in a business apart from us which competes or is likely to compete, directly or indirectly, with our Group.

PRE-LISTING INVESTORS

On 17 May 2012, the Pre-Listing Investors entered into a subscription agreement with our Company, pursuant to which our Company has agreed to issue and the Pre-Listing Investors have agreed to subscribe for 945,600 Shares in aggregate, representing approximately 9.46% of the issued share capital of our Company as at completion of the Pre-Listing Investments, for an aggregate consideration of HK\$57,000,000.

Completion of the Pre-Listing Investments took place on 23 May 2012. Pursuant to the terms of the subscription agreement, the Pre-Listing Investors do not enjoy any special rights in connection with the Pre-Listing Investments. Please refer to the paragraph headed “Pre-Listing Investments” in the section headed “History and Reorganisation” in this prospectus for further details of the Pre-Listing Investors.

KEY FINANCIAL DATA

The following is a summary of the consolidated financial information of our Group during the Track Record Period which is extracted from the accountant’s report set out in Appendix I to this prospectus. The summary financial data should be read in conjunction with the consolidated financial information in the accountant’s report set out in Appendix I to this prospectus.

Consolidated statements of comprehensive income

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Profit/(Loss) for the year	<u>35,555</u>	<u>(1,749)</u>

Our Group incurred a loss of approximately HK\$1.7 million for the year ended 31 December 2012. Our net profit margin of approximately 22.9% for the year ended 31 December 2011 was changed to our net loss margin of approximately 1.4% for the year ended 31 December 2012. As a summary, such change in the profitability of our Group was primarily contributed by:

- (a) lower market volatility resulted in lower leverage forex and other trading income;
- (b) increase in commission expenses paid to referral parties as a result of increase in trading volume of the referred clients; and
- (c) increase in the Listing expense following the resumption of the Listing process in June 2012.

SUMMARY AND HIGHLIGHTS

Segment reporting

The table below sets out the segment revenue and other income ^(Note), the segment profit/(loss) and the segment profit margin for each reportable segment during the Track Record Period.

	Year ended 31 December					
	2011			2012		
	<i>Segment revenue and other income</i> HK\$'000	<i>Segment profit/(loss)</i> HK\$'000	<i>Segment profit margin</i>	<i>Segment revenue and other income</i> HK\$'000	<i>Segment profit/(loss)</i> HK\$'000	<i>Segment profit margin</i>
New Zealand margin dealing	125,892	51,169	40.6%	108,216	15,059	13.9%
Hong Kong margin dealing	21,020	17,452	83.0%	24,261	21,793	89.9%
New Zealand cash dealing	11,297	3,624	32.1%	11,331	6,232	55.0%
New Zealand investment sales	4,502	(136)	N/A	3,094	(392)	N/A
Australia investment sales	6,198	(8,835)	N/A	6,261	(6,585)	N/A
Unallocated	17,622	17,622	100%	2,913	2,913	100%
Total	186,531	80,896	43.4%	156,076	39,020	25.0%

Note: The margin dealing revenue and the cash dealing revenue arose from the spread of forex contracts which is presented as a net basis in line with the industry practice and the applicable accounting standards.

The table below sets out the reconciliation of the segment revenue and other income to the total revenue and other income.

	Year ended 31 December	
	2011 HK\$'000	2012 HK\$'000
Total segment revenue and other income	186,531	156,076
Elimination for inter-segment sales	(31,289)	(32,854)
Total revenue and other income	155,242	123,222

SUMMARY AND HIGHLIGHTS

The table below sets out the reconciliation of the segment profit to the profit/(loss) for the year.

	Year ended 31 December	
	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total segment profit	80,896	39,020
Other staff costs	(23,797)	(17,406)
Other unallocated administrative and operating expenses	<u>(6,794)</u>	<u>(19,182)</u>
Profit before tax	50,305	2,432
Income tax expense	<u>(14,750)</u>	<u>(4,181)</u>
Profit/(Loss) for the year	<u><u>35,555</u></u>	<u><u>(1,749)</u></u>

Consolidated balance sheets

	As at 31 December	
	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	397,035	408,006
Total equity	<u><u>186,824</u></u>	<u><u>232,752</u></u>

The table below is a summary of the key financial ratios of our Group during the Track Record Period:

	<i>Notes</i>	Year ended 31 December	
		2011	2012
Net profit margin before interest and tax	<i>1</i>	32.5%	2.2%
Net profit/(loss) margin	<i>2</i>	22.9%	(1.4)%
Return/(Loss) on equity	<i>3</i>	18.3%	(0.8)%
Return/(Loss) on total assets	<i>4</i>	8.1%	(0.4)%
	<i>Notes</i>	As at 31 December	
		2011	2012
Current ratio	<i>5</i>	1.9	2.3
Gearing ratio	<i>6</i>	<u><u>8.4%</u></u>	<u><u>2.0%</u></u>

SUMMARY AND HIGHLIGHTS

Notes:

1. *Our net profit margin before interest and tax decreased from approximately 32.5% for the year ended 31 December 2011 to approximately 2.2% for the year ended 31 December 2012 mainly due to the increase in fees and commission expenses to income ratio as a result of the lower market volatility during that year as compared to that during the year ended 31 December 2011 together with the additional Listing expenses and the exchange loss incurred for the year ended 31 December 2012.*
2. *Our net profit margin decreased from approximately 22.9% for the year ended 31 December 2011 to a net loss margin of approximately 1.4% for the year ended 31 December 2012 mainly due to the reasons similar to our net profit margin before interest and tax as described above.*
3. *The return on equity of our Group decreased from approximately 18.3% for the year ended 31 December 2011 to a loss on equity of approximately 0.8% for the year ended 31 December 2012 as a result of the net loss of approximately HK\$1.7 million incurred for the year ended 31 December 2012.*
4. *Due to the similar reasons mentioned above, the return on total assets of our Group decreased from approximately 8.1% for the year ended 31 December 2011 to a loss on total assets of approximately 0.4% for the year ended 31 December 2012.*
5. *The current ratio of our Group remained stable at approximately 1.9 and 2.3 as at 31 December 2011 and 31 December 2012, respectively. The high liquidity of our Group was mainly attributable to the high level of cash and bank balances.*
6. *The gearing ratio of our Group was approximately 8.4% and 2.0% as at 31 December 2011 and 31 December 2012, respectively. The change in gearing ratio at the year ends was due to the changes in the amounts due to fellow subsidiaries and the balances due to banks. The change in balances due to banks reflects the incidental change of swap positions at the respective day ends. Balances due to banks were nil as at 31 December 2012 since there were no outstanding currency swaps payable to banks as at that date.*

Our financial condition and results of operations have been and will continue to be affected by a number of factors, including, among others, (a) the global demand for leveraged forex trading services and the volatility in the forex market; (b) the ability of our Group to respond to changes in terms of market makers; (c) the ability of our Group to respond to changes in technology; and (d) the ability of our Group to respond to changes in the regulatory regime. Please refer to the section headed “Financial Information” in this prospectus for further details of our financial condition and results of operations.

SUMMARY AND HIGHLIGHTS

Based on the net asset/liability values in different currencies as at 31 December 2011 and 31 December 2012, the impact on our Group's forex gain/loss in response to the movement in forex rate is summarised below:

Foreign currency risk	Movement in foreign currency	31 December	
		2011	2012
AUD	appreciated by/ depreciated by 5%	increased by/ decreased by approximately HK\$571,000	increased by/ decreased by approximately HK\$978,000
JPY	appreciated by/ depreciated by 5%	increased by/ decreased by approximately HK\$29,000	increased by/ decreased by approximately HK\$116,000
NZD	appreciated by/ depreciated by 5%	decreased by/ increased by approximately HK\$384,000	increased by/ decreased by approximately HK\$841,000
USD	appreciated by/ depreciated by 1%	increased by/ decreased by approximately HK\$1,625,000	increased by/ decreased by approximately HK\$723,000

Our management considers the foreign currency risk of other currencies as insignificant as the majority of our operations and transactions are in NZD and AUD.

The foreign currency risk is managed proactively by regular review of the currency positions in a basket of currency mix. In view of the currency positions (other than those incurred in the ordinary course of business on a daily basis), our Group entered into leveraged forex and derivative financial investments to manage the risks exposed to fluctuation in foreign currency positions during the Track Record Period. 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. 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.

SUMMARY AND HIGHLIGHTS

RECENT FINANCIAL PERFORMANCE OF OUR GROUP SUBSEQUENT TO THE TRACK RECORD PERIOD

The volatility in the forex market improved for the four months ended 30 April 2013. Given the increase in trading volume, the leveraged forex and other trading income for the four months ended 30 April 2013 increased compared with the same period in 2012. The increase in commission expenses was due to the increased commission rebates paid to referral parties. Our cash inflow from operating activities before working capital changes was approximately HK\$18.5 million for the four months ended 30 April 2013.

The table below sets forth the major financial information of our Group subsequent to the Track Record Period based on the unaudited management accounts of our Group:

	Four months ended 30 April		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)
Total income	40,144	26,138	52,399
Leveraged forex and other trading income	25,731	21,839	43,026
Cash dealing income	4,957	2,847	3,469
Commission expenses	7,300	11,306	15,521

On 21 May 2013 and 3 June 2013, our Company declared special dividends in the aggregate amount of HK\$16 million, HK\$10 million of which had been settled in cash as at the Latest Practicable Date and the remaining had been settled in cash as at the date of this prospectus.

The financial information as shown above was extracted from the unaudited condensed consolidated financial statements for the four months ended 30 April 2011, 30 April 2012 and 30 April 2013 prepared by our Group in accordance with HKAS 34 “Interim Financial Reporting” issued by the HKICPA. The reporting accountant of our Company has reviewed the unaudited condensed consolidated financial statements for the four months ended 30 April 2013 with reference to the principles set out in Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. The comparative financial information as shown above for the periods from 1 January 2011 to 30 April 2011 and from 1 January 2012 to 30 April 2012 has not been reviewed.

Prospective investors should note that the financial information of our Group subsequent to the Track Record Period is unaudited and may not reflect the full year results for the year ending 31 December 2013 and may be subject to adjustments based on the audit.

SUMMARY AND HIGHLIGHTS

IMPACT OF LISTING EXPENSES

The financial results of our Group for the year ended 31 December 2012 were affected by the non-recurring Listing expenses. The Listing expenses up to 31 December 2012 were approximately HK\$19.1 million, of which approximately HK\$5.0 million are directly attributable to the issue of the Placing Shares and are expected to be accounted for as a deduction from equity. The estimated Listing expenses for the year ending 31 December 2013 are approximately HK\$10.8 million, of which approximately HK\$3.7 million are directly attributable to the issue of the Placing Shares and are expected to be accounted for as a deduction from equity. The amount of Listing expenses is a current estimate for reference only and the final amount to be recognised to the consolidated statements of comprehensive income of our Group for the year ending 31 December 2013 is subject to adjustment based on the audit and the then changes in variables and assumptions. Prospective investors should note that the financial performance of our Group for the year ending 31 December 2013 would be materially and adversely affected by the estimated Listing expenses mentioned above, and may or may not be comparable to the financial performance of our Group in the past.

FUTURE PLAN AND USE OF PROCEEDS

The net proceeds of the Placing based on the Placing Price of HK\$0.452 per Placing Share, after deducting related expenses, are estimated to be approximately HK\$125.3 million. Our Directors presently intend that the net proceeds will be applied as follows:

	From the Latest Practicable Date to 31 December 2013 (HK\$)	30 June 2014 (HK\$)	For the six months ending		Total (HK\$)	
			31 December 2014 (HK\$)	30 June 2015 (HK\$)		31 December 2015 (HK\$)
Expansion of operations in the worldwide overseas Chinese and Japanese communities	1,500,000	8,000,000	9,000,000	9,500,000	8,000,000	36,000,000
Increase in the range of our financial services and products	5,000,000	Nil	20,000,000 ^(Note)	Nil	10,000,000 ^(Note)	35,000,000
Further upgrade of our online trading platform	5,000,000	8,000,000	5,000,000	5,000,000	5,000,000	28,000,000
Strategic growth through mergers and acquisitions	1,000,000	6,000,000	3,000,000	8,000,000	3,000,000	21,000,000
Total net proceeds	12,500,000	22,000,000	37,000,000	22,500,000	26,000,000	120,000,000

Note: The funding for dealing facilities is expected to be provided in line with the commencement of operations of a new branch or subsidiary in the second half of 2014 and 2015.

SUMMARY AND HIGHLIGHTS

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

Further information on the proposed use of proceeds of the Placing and our future plans is set forth in the section headed “Business Objectives and Future Plans” in this prospectus.

STATISTICS OF THE PLACING

	<i>Notes</i>	Based on the Placing Price of HK\$0.452
Market capitalisation of our Shares	<i>1</i>	HK\$904 million
Pro forma net tangible assets per Share	<i>2</i>	HK\$0.186

Notes:

- 1. The calculation of the market capitalisation is based on 2,000,000,000 Shares expected to be in issue following completion of the Capitalisation Issue and the Placing but without taking into account any Shares which may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company under the general mandates to issue and repurchase Shares, respectively.*
- 2. The pro forma net tangible assets per Share is arrived at after the adjustments referred to in Appendix II to this prospectus and on the basis of 2,000,000,000 Shares in issue immediately after completion of the Capitalisation Issue and the Placing but without taking into account any Shares which may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company under the general mandates to issue and repurchase Shares, respectively. No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to 31 December 2012.*

RISK FACTORS

The business and operation of our Group are subject to certain risks, the following are selected risk factors which our Directors consider to have a material negative impact on our business or the Placing should they materialise.

- Funds from our clients as margin deposits may not sufficiently cover the losses which may be potentially incurred by our clients’ trades, and we may not be able to recover such unsecured losses from our clients if they dispute such losses.
- We place heavy reliance on a limited number of market makers whom we consider providing our Group with the most competitive pricing for market liquidity and losing such market makers may render us less competitive in the market.
- We rely heavily on information technology to process the sheer volume of internal and external data essential for the proper operation of our trading platform, the malfunction of which could adversely affect our business operations.

SUMMARY AND HIGHLIGHTS

- (d) The leveraged forex trading business is governed by stringent laws, rules and regulations, any change of which may affect the validity of our existing authorisations and licences for conducting our business and lead to adverse consequences such as censure, fines or suspension of our business.
- (e) The profitability of our business is influenced by trading volume and currency volatility due to the changes in market sentiment and the demand and supply of currencies, all of which are beyond our control.
- (f) The Placing Shares are not underwritten.

Please refer to the section headed “Risk Factors” in this prospectus for a more comprehensive and detailed discussion on the risk factors associated with our Group’s business and the Placing.

NON-COMPLIANCES

Our Group has encountered 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. These three non-compliances were related to (a) the difference in interpretation of the nature of forward forex contracts and its compliance with the Authorised Futures Dealers Notice obtained by KVB NZ; (b) KVB NZ’s failure to renew its authorisation after expiration for a period of six months; and (c) KVB AU’s failure to hold the correct authorisation for conducting “make a market” activities due to uncertainties in the regulatory environment at the relevant time. However, in each of these non-compliances, 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. Please refer to the paragraph headed “Non-compliances” in the section headed “Business” in this prospectus for more detailed information.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

“Administrators”	Mr. Li and Mr. Chan Man Fai, being the administrators of Ms. Tsui’s Estate appointed pursuant to the Letters of Administration. Mr. Chan is a friend of the family of Mr. Li and is independent of Ms. Tsui and our Group
“AFSL”	Australian Financial Services Licence
“AML/CFT Act”	Anti-Money Laundering and Countering Financing of Terrorism Act 2009 of New Zealand
“Articles”	the articles of association of our Company adopted on 18 December 2012 and as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“ASIC”	Australian Securities & Investments Commission
“associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“AU\$” or “AUD”	Australian dollars, the lawful currency of Australia
“Beijing Office”	the representative office of KVB NZ in Beijing, the PRC, which is licensed by the China Banking Regulatory Commission to carry out non-operational activities including consultation, liaison and market research relating to our forex trading business in the PRC
“BIS”	The Bank for International Settlements, being an international organisation which fosters international monetary and financial cooperation and serves as a bank for central banks
“Board”	the board of Directors
“Bookrunner”	Cinda International Securities Limited, a licensed corporation under the SFO permitted to carry out type 1 (dealing in securities) regulated activity (as defined in the SFO), being the bookrunner and one of the joint lead managers to the Placing
“business day”	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong

DEFINITIONS

“BVI”	the British Virgin Islands
“CAD”	Canadian dollars, the lawful currency of Canada
“Calypso”	Calypso International Investment Co., Limited, a company incorporated in Hong Kong under the Companies Ordinance on 6 September 2010, being one of the Pre-Listing Investors and one of our Significant Shareholders, the background and shareholding structure of which are set out in the paragraph headed “Pre-Listing Investments” in the section headed “History and Reorganisation” and the paragraph headed “Interests and/or short position discloseable under the SFO and our Substantial Shareholders” in the section headed “Substantial and Significant Shareholders” in this prospectus, respectively
“Capitalisation Issue”	the issue of 1,646,655,000 Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in the paragraph headed “Resolutions in writing of our Shareholders” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CHF”	Swiss franc, the lawful currency of Switzerland
“China” or “PRC”	the People’s Republic of China excluding, for geographical reference only, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Code”	the Corporate Governance Code and Corporate Governance Report in Appendix 15 to the GEM Listing Rules
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	KVB Kunlun Financial Group Limited, an exempted company incorporated with limited liability under the Companies Law on 9 November 2010
“Connected Person(s)”	has the meaning ascribed thereto under the GEM Listing Rules

DEFINITIONS

“Controlling Shareholders”	has the meaning ascribed thereto under the GEM Listing Rules and, for the purpose of this prospectus, refers to KVB Holdings and Mr. Li
“Deed of Indemnity”	the deed of indemnity dated 18 December 2012 together with the supplemental deed dated 3 June 2013 executed by our Controlling Shareholders in favour of our Company, particulars of which are set out in the section headed “Relationship with Controlling Shareholders” in this prospectus
“Deed of Non-competition”	the deed of non-competition dated 18 December 2012 together with the supplemental deed dated 3 June 2013 executed by our Controlling Shareholders in favour of our Company, particulars of which are set out in the section headed “Relationship with Controlling Shareholders” in this prospectus
“Director(s)”	the director(s) of our Company
“EUR”	euro, the official currency of the eurozone
“FMA”	the Financial Markets Authority (including its predecessor, the Securities Commission of New Zealand)
“GARC Committee”	the Group audit, risk and compliance committee
“GBP”	pound sterling, the lawful currency of the United Kingdom
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended, supplemented or otherwise modified from time to time
“Group”, “our Group”, “we” or “us”	our Company and our subsidiaries or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company
“GST”	Goods and Services Tax
“HK\$” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS

“HKABA”	The Hong Kong Australia Business Association Limited, which was initiated by the Hong Kong Trade Development Council and established in 1987 aiming to promote a positive image for Hong Kong and to reinforce economic ties between Hong Kong, the PRC and Australia. It is a member of the Federation of Hong Kong Business Associations Worldwide established in November 2000, comprising 33 Hong Kong business associations in 24 countries with over 11,000 individual associates
“HKAS”	Hong Kong Accounting Standard
“HKFRSs”	Hong Kong Financial Reporting Standards
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKMA”	The Hong Kong Monetary Authority, being the government authority in Hong Kong responsible for maintaining monetary and banking stability
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hui Zhong Holding”	Hui Zhong Holding (HK) Company Limited, a company incorporated in Hong Kong under the Companies Ordinance on 21 September 1998 and is owned as to 90% by Mr. Li and 10% by Ms. Tsui’s Estate
“IEO”	Intestates’ Estates Ordinance (Chapter 73 of the Laws of Hong Kong)
“Independent Third Party(ies)”	individual(s) or company(ies) who is/are not connected with (within the meaning of the GEM Listing Rules) any Directors, chief executive of our Company or Substantial Shareholders, our subsidiaries or any of their respective associates
“Joint Lead Managers”	Cinda International Securities Limited and Quam Securities Company Limited and “Joint Lead Manager” means any one of them
“JPY”	Japanese yen, the lawful currency of Japan
“KVB AM (HK)”	KVB Kunlun Asset Management (HK) Limited, a company incorporated in Hong Kong under the Companies Ordinance on 23 November 2007 and a wholly owned subsidiary of KVB Holdings, being a member of the Non-listed Group

DEFINITIONS

“KVB AU”	KVB Kunlun Pty Ltd, a registered company under the Corporations Act 2001 of Australia and is taken to be registered in New South Wales, Australia on 26 August 2002 and a wholly owned subsidiary of our Company
“KVB CA”	KVB Kunlun Canada Inc., a company incorporated in Canada on 20 July 2006 and a wholly owned subsidiary of KVB Holdings, being a member of the Non-listed Group
“KVB FX”	KVB FX Limited, a company incorporated in New Zealand under the New Zealand Companies Act on 18 August 2008 and a wholly owned subsidiary of KVB Holdings, being a member of the Non-listed Group
“KVB FX Pty”	KVB FX Pty Limited, a registered company under the Corporations Act 2001 of Australia and is taken to be registered in New South Wales, Australia on 25 August 2008 and a wholly owned subsidiary of KVB Holdings, being a member of the Non-listed Group
“KVB HK”	KVB Kunlun International (HK) Limited, a company incorporated in Hong Kong under the Companies Ordinance on 3 June 2002 and a wholly owned subsidiary of our Company
“KVB Holdings”	KVB Kunlun Holdings Limited, a company incorporated in the BVI under the International Business Companies Act (Cap. 291) of the BVI on 11 April 2005, being one of our Controlling Shareholders and is held as to 75% by Mr. Li and 25% by the Administrators in trust for the three children of Mr. Li and the late Ms. Tsui
“KVB NZ”	KVB Kunlun New Zealand Limited, a company incorporated in New Zealand under the New Zealand Companies Act on 6 September 2001 and a wholly owned subsidiary of our Company
“KVB Securities”	KVB Kunlun Securities (HK) Limited, a company incorporated in Hong Kong under the Companies Ordinance on 26 October 2007 and a wholly owned subsidiary of KVB Holdings, being a member of the Non-listed Group
“Latest Practicable Date”	3 June 2013, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus prior to its publication

DEFINITIONS

“Letters of Administration”	the letters of administration granted by the Court of Hong Kong dated 22 February 2012 and the Court of the BVI dated 16 July 2012, respectively, in connection with Ms. Tsui’s Estate, and each a Letter of Administration
“Listing”	listing of the Shares on GEM
“Listing Date”	the date, expected to be on or about 3 July 2013, on which dealings in the Shares first commence on GEM
“Listing Division”	the Listing Division of the Stock Exchange
“LXL Capital I”	LXL Capital I Limited, a company incorporated in the BVI under the BVI Business Companies Act 2004 on 8 April 2011 and is wholly owned by our Company
“LXL Capital II”	LXL Capital II Limited, a company incorporated in the BVI under the BVI Business Companies Act 2004 on 8 April 2011 and is wholly owned by LXL Capital I
“LXL Capital III”	LXL Capital III Limited, a company incorporated in the BVI under the BVI Business Companies Act 2004 on 8 April 2011 and is wholly owned by LXL Capital I
“LXL Capital IV”	LXL Capital IV Limited, a company incorporated in the BVI under the BVI Business Companies Act 2004 on 8 April 2011 and is wholly owned by LXL Capital I
“Memorandum”	the memorandum of association of our Company
“Mr. Li”	Mr. Li Zhi Da (李志達先生), being one of our non-executive Directors, one of our Controlling Shareholders and one of the Administrators
“Ms. Tsui”	the late Ms. Tsui Wang (徐泓女士), being the spouse of Mr. Li
“Ms. Tsui’s Estate”	Ms. Tsui’s assets in Hong Kong and the BVI
“New Zealand Companies Act”	the Companies Act 1993 of New Zealand
“Non-listed Group”	the subsidiaries of KVB Holdings other than our Group
“NZ\$” or “NZD”	New Zealand dollars, the lawful currency of New Zealand
“NZX”	NZX Limited, a stock exchange located in New Zealand

DEFINITIONS

“Placing”	the conditional placing of 343,345,000 Placing Shares by the Placing Agents on behalf of our Company for cash at the Placing Price, as further described in the section headed “Structure of the Placing” in this prospectus
“Placing Agents”	the placing agents of the Placing whose names are set out in the paragraph headed “Placing Agents” in the section headed “Structure of the Placing” in this prospectus
“Placing Agreement”	the conditional placing agreement dated 11 June 2013 entered into by, among others, our Company and the Placing Agents relating to the Placing, particulars of which are summarised in the section headed “Structure of the Placing” in this prospectus
“Placing Price”	HK\$0.452 per Placing Share, excluding brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.003%
“Placing Shares”	the Shares being offered for subscription pursuant to the Placing
“Pre-Listing Investments”	the subscriptions of the Shares by the Pre-Listing Investors pursuant to the subscription agreement dated 17 May 2012 entered into between our Company and the Pre-Listing Investors
“Pre-Listing Investors”	Calypso and Silverlake, whose investments in our Group are more particularly described under the section headed “History and Reorganisation” in this prospectus
“Quam Capital” or “Sponsor”	Quam Capital Limited, a licensed corporation under the SFO permitted to carry out type 6 (advising on corporate finance) regulated activity (as defined in the SFO), being the sponsor for the Listing
“RBNZ”	The Reserve Bank of New Zealand, being New Zealand’s central bank
“Reimbursed Listing Expenses”	the Listing expenses agreed to be unconditionally and irrevocably taken up or reimbursed by KVB Holdings due to the passing away of Ms. Tsui, further information on which is set forth in the paragraph headed “Reimbursed Listing Expenses” in the section headed “Financial Information” in this prospectus
“Reorganisation”	the reorganisation of our Group conducted in preparation for the Listing, details of which are set out in the section headed “History and Reorganisation” in this prospectus

DEFINITIONS

“RMB”	Renminbi, the lawful currency of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) with nominal value of HK\$0.01 each in the share capital of our Company
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 3 June 2013, the principal terms of which are summarised in the paragraph headed “Share Option Scheme” in Appendix IV to this prospectus
“Shareholder(s)”	holder(s) of the Share(s)
“Significant Shareholders”	has the meaning ascribed thereto under the GEM Listing Rules and, for the purpose of this prospectus, refers to those individuals and corporations disclosed under the paragraph headed “Interests and/or short position discloseable under the SFO and our Substantial Shareholders” in the section headed “Substantial and Significant Shareholders” in this prospectus
“Silverlake”	Silverlake International Ltd, a company incorporated in Bermuda under the Companies Act 1981 on 21 December 2010 and is held as to 80% by Mr. Goh Peng Ooi, 15% by Mr. Li Lin and 5% by Mr. Kwang King Siong (all of which are Independent Third Parties), being one of the Pre-Listing Investors and a Shareholder
“sq.ft.”	square feet
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto in section 2 of the Companies Ordinance
“Substantial Shareholders”	has the meaning ascribed thereto in the GEM Listing Rules and, for the purpose of this prospectus, refers to KVB Holdings and Mr. Li
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers

DEFINITIONS

“Track Record Period”	the two financial years ended 31 December 2011 and 31 December 2012
“US”	the United States of America
“US\$” or “USD”	United States dollars, the lawful currency of the US
“%”	per cent.

In this prospectus, if there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail.

The English translations of the names of PRC laws, rules and regulations in this prospectus are not official names for, and do not form any official part of, such laws, rules and regulations.

Unless otherwise specified and for illustrative purpose only, translations of NZD, AUD, RMB and USD into HK\$ in this prospectus are based on the rates set out below:

NZD1.00	:	HK\$6.25
AUD1.00	:	HK\$8.10
RMB1.00	:	HK\$1.22
US\$1.00	:	HK\$7.76

Such conversions shall not be construed as representations that amount of such currencies were or may have been converted into HKD and vice versa at such rates or any other exchange rates.

GLOSSARY OF TECHNICAL TERMS

This glossary contains definitions of certain terms used in this prospectus in connection with our Group and our business. Some of these terms may not correspond to standard industry definitions.

“active client(s)”	for the purpose of our Group, being client(s) who traded at least once during the past 12 months
“currency swap(s)”	forex agreement(s) between two parties to exchange aspects (namely the principal and/or interest payments) of a loan in one currency for equivalent aspects of an equal net present value loan in another currency
“DTA Services”	the trading services provided to our clients who enter into agreements with KVB NZ conferring full authority and discretion on our Group to trade their discretionary trading accounts on their behalf with maximum loss limits preset by them
“ERP”	enterprise resources planning
“forex”	foreign exchange
“outright forwards”	forward currency contract with a lock-in exchange rate and delivery date, which allows an investor to buy or sell a currency on a specific date or within a range of dates
“pip”	percentage in point, is a unit of change in exchange rate for a currency pair. Most currency pairs are priced to four decimal places, a pip is therefore one unit of the fourth decimal point or 1/100th of 1%
“plain vanilla”	the most basic or standard version of a financial instrument, usually options, bonds, futures and swaps, which is the opposite of an exotic instrument which alters the components of a traditional financial instrument, resulting in a more complex security or derivative
“sniping activities”	activities aimed at taking, or attempting to take, advantage of errors in prices or performing other forms of abusive transactions
“troy oz.”	troy ounce, unit of weight conventionally used for precious metals
“value date”	the date on which the value of a forex contract is determined
“WLP”	white label partnership, a partnership designed for the sharing of our established business model and resources in our trading services through our online trading platform

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements which are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and plan of operation;
- our capital expenditure plans;
- the amount and nature of, and potential for, future development of our business;
- our operations and business prospects;
- our dividend policy;
- planned projects;
- the regulatory environment of our industry in general;
- future development in our industry;
- the global and domestic economy; and
- the equity and forex markets.

The words “anticipate”, “believe”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “seek”, “will”, “would” and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. One or more of these risks or uncertainties may materialise, or underlying assumptions may prove incorrect.

Subject to the requirements of the GEM Listing Rules, we do not intend to publicly update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

Prospective investors should consider carefully all the information set out in this prospectus and, in particular, should consider and evaluate the following risks associated with an investment in our Company before making any investment decision in relation to our Company. The business, financial condition and results of operations of our Group could be adversely affected by any of the following risks and uncertainties. The trading prices of the Shares could decline due to any of these risks, and you may lose all or part of your investment.

RISKS ASSOCIATED WITH OUR GROUP

We may suffer losses when our client's margin deposit with us is unable to cover the losses arising from closing out of position.

Our clients are required to place an initial margin deposit before they are allowed to open any positions. Adverse market movements could see our client's account equity drop to the preset stop-out level and our Group is entitled to close out the position. However, if at the time of closing out, there are large sudden market movements due to market volatility, our client's position may be closed at a much worse level which might lead to a deficit in his/her/its account. Under such circumstances, there is a potential credit risk to our Group in collecting the amount of unsecured losses from our client. The amount of initial margin required from our client is dependent on the leverage granted to him/her/it. For clients with a leverage limit of 100 times, the required initial margin for a trade is 1% of the value of the trade. If a client's leverage limit is 20 times, the required initial margin for a trade is 5% of the value of the trade. As at 31 December 2012, approximately 82.5% of our clients had leverage limits of 100 times to 200 times. The risks associated with the deficits in the trading accounts of these clients are higher than those clients with lower leverage limits given that the initial margin deposits placed by these clients are lower.

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. We may be exposed to the risk of not being able to recover such shortfall from our clients and our business, financial condition and results of operations may be adversely impacted.

We depend on market makers to continually provide competitive pricing. Any termination of contractual relationship with market makers may render us unable to provide competitive leveraged forex trading services and will adversely affect our business, financial condition and results of operations.

We depend on market makers for competitive pricing as well as market liquidity which we pass on to our clients. For each of the two years ended 31 December 2011 and 31 December 2012, our Group's five largest market makers accounted for approximately 92.9% and 72.2%, respectively, of our total market makers' trading volume, while our Group's largest market maker accounted for approximately 48.8% and 29.6%, respectively, of our total market makers' trading volume. 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. There are no expiry dates

RISK FACTORS

for our agreements with market makers. The events of default under the agreements between our Group and market makers include, but are not limited to, 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. Given our dependence on market makers, any termination of our contractual relationships with them would result in our inability to provide competitive leveraged forex trading services and thus would have a detrimental effect on our business, financial condition and results of operations. As a principal between our clients and market makers, we provide competitive bid/offer prices for each currency pair from market makers plus a markup, which is based on market conditions and our risk exposure. When a client places a trade and opens a position, we may naturally hedge the trade or open a trade between ourselves and a market maker who provides the price which our client selects. In the event that an offsetting trade fails, we may incur losses resulting from the trade with our client. Depending on the currency pairs, the markup offered to our clients ranges from approximately 2.4 pips to 30 pips. The spreads earned by other market players in the leveraged forex industry vary due to the different business models and hedging strategies adopted. Our failure to source favourable pricing from market makers will affect the competitiveness of the markup offered to our clients and accordingly, our results of operations will be adversely affected.

We depend on our trading platform technology. Any disruption or corruption of this technology could have a material adverse effect on our business, financial condition and results of operations.

We rely on our trading platform technology to receive and properly process internal and external data. Any disruption to our software or hardware could have a material adverse effect on our business, financial condition and results of operations. For example, our trading platform includes a feature to ensure that open positions are automatically closed out if a client is reaching the minimum margin threshold and is at risk of going into a negative balance on his/her/its account. Any disruption or corruption of this feature would subject us to the risk that the amounts owed to us by such client exceed the margin deposits in such client's account.

In order to remain competitive, we need to continuously develop and modify our trading platform technology. In doing so, there is risk that failures may occur and result in service interruptions or other negative consequences.

Our trading platform technology has taken us years to develop and is a key factor behind our past success. Should our competitors develop more advanced technologies, we may be required to devote substantial resources to advancing our technology to remain competitive. As the leveraged forex market is evolving with rapidly changing technology and practices, we may not be able to keep up with these changes in the future, and as such, our competitive edge may be reduced.

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A significant proportion of our income was contributed by the referred clients. If a substantial number of the referred clients terminate relationships with us or referral parties stop referring new clients to us, our business, financial condition and results of operations could be adversely affected.

We incepted a significant number of clients through referral parties during the Track Record Period and saw the number of referred clients grow from approximately 4,400 as at 31 December 2011 to approximately 8,800 as at 31 December 2012. The number of referral parties also increased from approximately 120 as at 31 December 2011 to approximately 620 as at 31 December 2012. The referred clients represented approximately 54.8% and 69.3% of our total client base and contributed to approximately 60.7% and 67.4% of our trading volume for the two years ended 31 December 2011 and 31 December 2012, respectively. Given such significant contribution of income from the referred clients, any cessation of relationships with a substantial number of the referred clients would adversely affect our business, financial condition and results of operations. Further, our failure to maintain relationships with referral parties, the failure of referral parties to refer new clients to us and our failure to create new relationships with referral parties would adversely affect our income, which could have an adverse effect on our business, financial condition and results of operations.

A sizeable portion of our trading volume is derived from the trading activities of our five largest clients. Any failure to retain or incept clients with such high trading activities could adversely affect our business, financial condition and results of operations.

Trading volume is one of the major factors affecting our income since it is from the trades initiated by our clients where our Group will be able to derive 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.

Our Group's five largest clients, all being clients from our leveraged forex and other trading business, accounted for approximately 29.6% and 23.3% of our trading volume for the two years ended 31 December 2011 and 31 December 2012, respectively.

There is no assurance that we will be able to retain or incept clients with such high trading activities, or that the past trading behaviour of our existing five largest clients will be maintained in the future and in such case, our business, financial condition and results of operations could be adversely affected.

Our Group's forex positions may not be fully hedged at all times.

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, subject to our daily/shift loss limit. During the Track Record Period, our forex positions were not fully hedged and the percentage of exposure hedged, or the hedge ratio, was approximately 91.8%, and 81.0% as at 31 December 2011 and 31 December 2012, respectively. The reason for the fluctuation was mainly due to the effect of natural hedge strategy which relies on our clients to enter into offsetting trades, where, subject to our daily/shift loss limit, we will hold a position until it is hedged by a position initiated by another client. Consequently, our net positions held and the hedge ratio will also fluctuate correspondingly. In such case, we may incur losses as our forex positions may not be fully sheltered through hedging.

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The business which we carry on is highly regulated. The failure of our Group to possess sufficient or valid authorisations or licences may adversely affect our business, financial condition and results of operations.

The leveraged forex trading business which we carry on is highly regulated and authorisations or licences are required for conducting business in this field. The failure of our Group to possess sufficient or valid authorisations or licences while conducting business may bring about adverse consequences to our business, financial condition and results of operations such as censure, fines and suspension of our business imposed by regulators in the relevant jurisdictions.

Since the incorporation of KVB NZ, KVB AU and KVB HK, we have encountered three non-compliances relating to the operation of our business without sufficient or valid authorisations or licences. Please refer to the paragraph headed “Non-compliances” in the section headed “Business” in this prospectus for more detailed information on these non-compliances.

During the Track Record Period, our income generated by KVB NZ represented approximately 88.4% and 93.7% of our total income for the two years ended 31 December 2011 and 31 December 2012, respectively. The change in control of our Group as a result of the Listing may have certain implications for KVB NZ’s continued authorisation as a futures dealer in New Zealand as considered by the FMA. While the FMA has indicated to KVB NZ that it is highly unlikely that KVB NZ’s authorisation will be revoked as a result of the Listing, there is no assurance that the FMA will not impose further conditions on KVB NZ’s present authorisation which may have an impact on our business operations and may create additional administrative and financial burden on our Group as a result of complying with such conditions. Please refer to the paragraph headed “Qualifications and licences” in the section headed “Business” in this prospectus for more information on the relevant conditions applicable to our Group for holding such authorisations and licences for conducting our business.

There can be no assurance that our Group will be able to maintain or renew any of our authorisations or licences as and when required.

System failures or security breaches could interrupt or decrease responsiveness of our services, thus harming our business.

The operation of our Group’s business is highly dependent on the capability and reliability of our trading system, in particular our online trading platform, ForexStar. The trading system used by our Group for our business may be vulnerable to a number of disruptions such as damage or interruption from human error, natural disasters, power loss, telecommunication failures such as disruption in internet or telephone services, break-ins, sabotage, computer viruses, intentional acts of vandalism and similar events. Such disruptions may cause data corruption and interruptions, delay or cessation in the services provided through our trading platform and our business, financial condition and results of operations may be adversely affected. Inappropriate use of the internet by third parties may also jeopardise the security of confidential and private information (such as client data or trading records) stored in our trading system and cause potential losses to our Group. Any such problems or security breaches could give rise to liabilities to one or more third parties, including our clients, and

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thus disrupt our operations. A party able to circumvent our security measures could misappropriate proprietary information or client information stored in our trading system, jeopardise the confidential nature of information we transmit over the internet or cause interruptions in our operations. To the extent that our activities involve the storage and transmission of proprietary information and personal financial information, security breaches could expose us to a risk of financial loss, litigation and other liabilities. Any of these events, particularly if they result in a loss of confidence in our services, could have an adverse effect on our business, financial condition and results of operations.

We are subject to risk whereby defaults by parties with whom we do business can have an adverse effect on our business, financial condition and results of operations.

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. Certain exposure will be covered by other clients' trades and for our Group's outstanding exposure, we will enter into hedge transactions with market makers, and under such arrangement, our Group 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 in our role as the market maker and the spread differential between our clients and market makers in our role as the agent.

We are also subject to market maker risk with respect to clearing and credit risk in the event that such market makers fail to fulfil their obligations. In the event of such incidents, we could face liabilities which could have an adverse effect on our business, financial condition and results of operations.

Our business may be exposed to unidentified or unexpected risks given rise by events which are beyond our control.

We are dependent on our risk management policies and our trading staff's adherence to these policies which identify, monitor and control a variety of risks related to human error, client defaults, market movements, fraud and money laundering. Our risk management procedures are based on a review of the internal control environment and designed to test those controls on both regular and ad hoc basis. These methods may not adequately prevent losses, particularly under extreme market movements, which may be significantly greater than we anticipate and greater than historical changes in market prices. Also, if our testing and quality control practices are unable to prevent software or hardware failures, our risk management methods may not adequately prevent losses from technical errors. Additionally, we may decide to increase our risk tolerance, which potentially could expose us to greater losses. Our risk management methods rely on both technical and human controls and supervision which may be prone to error. These methods may not protect us against all risks or may protect us less than anticipated, in which case our business, financial condition and results of operations may be adversely affected.

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We may be subject to client litigation, financial losses, regulatory sanctions and damage to our reputation as a result of error trade or employee misconduct which is difficult to detect and prevent.

Although our Group has an online trading platform, ForexStar, our clients can still trade leveraged products by placing their orders via our 24-hour telephone system. As a result, error trades may be entered into by our staff when processing orders placed by our clients via telephone. These error trade positions may arise from mistakes made by our staff when inputting data or recording clients' instructions, executing unauthorised transactions for our clients or using confidential client information for personal or other improper purposes, and misrecording or otherwise trying to hide improper activities from us. These error trades may cause us to enter into transactions which our clients disavow or refuse to settle. Error trades expose us to the risk of unidentified losses until the errors are detected and the transactions are terminated. The risk of error trades or miscommunication may be greater for products which are new or have non-standardised terms. Further, such errors may be more likely to occur in the aftermath of any acquisitions during the integration of or migration from technological systems.

Misconduct by our current or former employees could subject us to financial losses or regulatory sanctions and thus seriously damage our reputation. Our employees may also commit errors in good faith which could subject us to financial claims for negligence or otherwise, as well as regulatory actions. 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. 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, whether due to error trades or not, up to the Latest Practicable Date. However, our Group's profitability may be adversely affected if error trades or misconduct by our current or former employees are not effectively prevented, identified or controlled by our Group.

We may be unable to protect our intellectual property rights and information technology or may be prevented from using intellectual property and information technology necessary for our business.

Our agreements with our staff and other third parties contain confidentiality provisions which rigorously control access to our intellectual property rights and information technology. Other than trademark registration, our Group has not registered or patented other intellectual property or information technology. Unlike trademarks, our Directors consider other intellectual property or information

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technology as fast changing and it is not practicable nor cost-effective to register or patent this intellectual property or information technology. The cost of registering such intellectual property or information outweighs the value we might gain by such recognition. Despite these precautions, third parties may still copy or otherwise obtain and use our intellectual property rights and information technology without authorisation or otherwise infringe on our rights.

In the future, we may have to rely on litigation to enforce our rights pertaining to the trademarks which were registered in our name or were licensed for our use, protect our trade secrets, determine the validity and scope of the proprietary rights of others or defend against claims of infringement or invalidity. Any such litigation, whether successful or not, could result in substantial costs and diversion of resources and attention of management, all of which could adversely affect our business, financial condition and results of operations.

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. Therefore, should such software developers refuse to renew the licences with us, we may not be able to conduct our trading business as the core of our business is reliant on our ForexStar trading system. In such an event, our business would be adversely affected.

Sanctions or revocation of authorisations or licences by regulators could have a material adverse effect on our business, financial condition and results of operations.

Other than complying with local regulatory requirements, our Group also has to comply with the applicable laws, rules and regulations in the course of our operations, including those relating to anti-money laundering, counter-terrorist financing and forex trading through internet in the jurisdiction in which our Group is deemed to conduct business, due to the transactional nature of our business. If a regulator finds that our Group has failed to comply with any applicable laws, rules or regulations, or resolves to take action in respect of past breaches or non-compliance, we may be subject to censure, fines and suspension of our business or other civil and criminal liabilities.

Our Directors have confirmed that our Group was not subject to any of the aforesaid censure, fines, suspension or liabilities imposed by any regulatory authority during the Track Record Period.

We are subject to litigation risk which could adversely affect our reputation, business, financial condition and results of operations.

Many aspects of our business involve risks including, among others, disputes over trading terms with our clients and market makers, client losses resulting from system delay or failure and client claims which we or our staff executed unauthorised transactions, made materially false or misleading statements or lost or diverted client assets in our custody. We may also be subject to regulatory investigation and enforcement actions seeking to impose significant fines or other sanctions, which in turn could trigger civil litigation for our previous operations which may be deemed to have violated

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applicable laws, rules and regulations in various jurisdictions. The amounts involved in the trades, together with rapid price movements in the currency pairs, can result in potentially large damage claims in litigation resulting from such trades. Clients who suffer losses may claim against us regarding the quality of trade execution, improperly settled trades, mismanagement or even fraud, and these claims may increase as our business expands. Even if we prevail in any litigation or enforcement proceedings against us, we could incur significant legal expenses defending against those claims, including those without merit. Moreover, claims brought against us without merit can damage our reputation or raise concerns among our clients and we may feel compelled to settle claims at significant costs. The initiation of any claims, proceedings or investigations against us, or an adverse resolution of any such matters could have an adverse effect on our reputation, business, financial condition and results of operations.

We are required to maintain specific levels of capital, which could constrain our growth and subject us to regulatory sanctions.

The jurisdictions in which we operate have stringent rules requiring that we maintain specific minimum levels of capital in our operating subsidiaries which conduct leveraged forex trading business. Regulators continue to evaluate and modify minimum capital requirements from time to time in response to market events and to improve the stability of the international financial system. Additional revisions to this framework or new capital adequacy rules applicable to us may be proposed and ultimately adopted, which could further increase our minimum capital requirements in the future.

We will need to increase our capital in order to expand our operations and increase our income, and our inability to increase our capital on a cost-efficient basis could constrain our growth. In particular, these restrictions could limit our ability to pay dividends or make other distributions on the Shares and, in some cases, could potentially affect our ability to withdraw funds needed to satisfy our ongoing operating expenses and other cash needs.

While we expect that our current amount of capital will be sufficient to meet the anticipated short-term increases in requirements, any failure to maintain the required levels of capital, or to report any capital deficiencies or material declines in capital could result in sanctions including fines, censure, restrictions on our ability to conduct business and revocation of our authorisations or licences.

Loss of our Group's key personnel could compromise the effective management of our business and growth.

The key management personnel of our Group, which include Mr. Liu Stefan, Mr. Ng Chee Hung Frederick and Mr. Huang Songyuan, have extensive experience in the financial services industry. They have, therefore, established relationships with market makers in the leveraged forex trading industry. Such relationships are conducive to obtaining favourable terms from market makers for margin facilities and price quotations for our Group's leveraged trading business. The extensive experience of these personnel in the leveraged forex industry and their in-depth understanding of the risk management and internal control aspects related thereto are also crucial to our Group in securing high net worth clients. The loss of these personnel could compromise our ability to effectively manage our business and pursue our growth strategy in the short term.

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The proposed annual caps for the cash dealing services to be provided to the Non-listed Group after the Listing may not be indicative of the total income derived from our Group's cash dealing services.

During the Track Record Period, our Group provided cash dealing services to the subsidiaries of KVB Holdings, namely, KVB FX, KVB FX Pty and KVB CA. These services included, in particular, the provision of currency exchange at a rate determined at the time of the transaction. For details of the transactions, please refer to the paragraph headed "(b) Cash Dealing Agreement" in the section headed "Connected Transactions" in this prospectus.

For the two years ended 31 December 2011 and 31 December 2012, the aggregate trading volume of KVB FX, KVB FX Pty and KVB CA in respect of the cash dealing services amounted to approximately US\$2.7 billion and US\$2.7 billion, respectively. For the two years ended 31 December 2011 and 31 December 2012, income derived from our Group's cash dealing services amounted to approximately HK\$12,602,000 and HK\$9,310,000, respectively, representing approximately 8.1% and 7.5% of our Group's total income, respectively.

The proposed cap amounts of the aggregate trading volume of KVB FX, KVB FX Pty and KVB CA for the cash dealing services for each of the three years ending 31 December 2013, 31 December 2014 and 31 December 2015 are US\$2.9 billion, US\$2.9 billion and US\$2.9 billion, respectively. Although the proposed annual caps are determined based on the estimated trading volume, the level of total income derived from our Group's cash dealing services may not correlate with that of the trading volume. As such, the proposed annual caps cannot be used as an indication to determine the total income derived from our Group's cash dealing services.

Potential mergers or acquisitions could present unforeseen integration obstacles.

We may pursue mergers or acquisitions which could present integration obstacles and costs. We may not realise any anticipated benefits and may be exposed to additional liabilities of any acquired business, any of which could adversely affect our income and results of operations. In addition, future mergers or acquisitions may involve the issue of additional Shares which would dilute the shareholding of our Shareholders.

Our Shareholders may face difficulties in protecting their interests because we are incorporated under Cayman Islands law and protection for minority shareholders under Cayman Islands law may be different from those under the laws of Hong Kong and other jurisdictions.

Our corporate affairs are governed by the Memorandum, the Articles, the Companies Law and the common law of the Cayman Islands. The law of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes and judicial precedents in Hong Kong or other jurisdictions. Such differences may mean that the remedies available to our Company's minority Shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions. For more details, please refer to the paragraph headed "Protection of minorities" in Appendix III to this prospectus.

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RISKS ASSOCIATED WITH THE INDUSTRY

Changes in the regulatory environment in which we operate could have a material adverse effect on our business, financial condition and results of operations. Further, there can be no assurance that we will be able to maintain or renew any of our authorisations or licences as and when required if there is any change to or tightening of the relevant laws, rules and regulations.

The business of our Group is regulated by the laws, rules and regulations in New Zealand, Australia and Hong Kong and the operating subsidiaries of our Group are required to be, and to remain, authorised by or licensed with the FMA, the ASIC, the SFC or the China Banking Regulatory Commission, depending on the jurisdiction in which they operate. This also applies to our staff in some of these jurisdictions, who are required to maintain competence to perform their duties in all relevant jurisdictions.

New laws, rules and regulations may be introduced governing various aspects of our Group's operations. In addition, the interpretation and enforcement of any existing laws, rules and regulations may change and we may be subject to new regulations which may affect the way in which we conduct our business and may make our business less profitable. For example, regulatory bodies may reduce the allowable levels of leverage we can offer to our clients, which may adversely impact our business, financial condition and results of operations. Compliance with these regulations could be complicated, time consuming and expensive. Any such changes may result in an increase in our Group's cost of compliance, or may require our Group to restrict our business activities. Even minor, inadvertent irregularities can potentially give rise to claims that applicable laws, rules and regulations have been violated. Failure to comply with any applicable laws, rules and regulations could lead to fines and other penalties which could adversely affect our financial condition and ability to conduct our business as planned. In addition, we could incur significant legal expenses in defending ourselves against and resolving actions or investigations by such regulators.

Our Directors have confirmed that other laws, rules and regulations recently implemented did not and do not have any material impact on our Group's operations and financial results during the Track Record Period and going forward. Summaries of the relevant laws, rules and regulations, and our Group's continuing obligations under the various regulatory regimes in New Zealand, Australia and Hong Kong are set out in the section headed "Regulatory Overview" in this prospectus.

Our business could be adversely affected if the global economy adversely impacts our clients.

Our client base is largely comprised of individual retail clients who view leveraged forex trading as an alternative investment class. If the global economy negatively impacts the leveraged forex market or adverse developments in the global economy limit the disposable income of our clients, our business could be adversely affected as our clients may choose to curtail their trading in the leveraged forex market which could result in reduced client trading volume and income.

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Our business and profitability are influenced by trading volume and market volatility, which are directly impacted by domestic and international markets, economic conditions and natural disasters which are beyond our control. There is no assurance that our Group will increase or maintain our historical trading volume and profitability.

Like other financial services firms, our business and profitability may be affected by factors which are beyond our control, such as economic and political conditions, broad trends in business and finance, changes in forex policy in the countries which are relevant to our leveraged forex trading business, changes in the volume of forex transactions, changes in supply and demand for currencies, movements in forex rates, changes in the financial strength of market participants, legislative and regulatory changes, changes in the markets in which such transactions occur, changes in how such transactions are processed and disruptions due to terrorism, war, outbreak of infectious diseases, extreme weather events, earthquake, tsunami or other natural disasters, all of which are drivers of market volatility. Any one or more of these factors may adversely affect our business, financial condition and results of operations. As a result, our future operating results may be subject to significant fluctuations or declines and prospective investors should be aware that there is no assurance that our Group will increase or maintain our historical trading volume and profitability and therefore the historical results of our Group should not be used as an indication of our future performance.

Our net profit decreased from approximately HK\$35.6 million for the year ended 31 December 2011 to a net loss of approximately HK\$1.7 million for the year ended 31 December 2012 due to the lower market volatility during that year as compared to that during the year ended 31 December 2011 together with the additional Listing expenses and the exchange loss incurred for the year ended 31 December 2012. If the market volatility is low, our financial results for the year ending 31 December 2013, and future year ends, may result in a loss.

A systemic market event which impacts the various market participants with whom we interact could have a material adverse effect on our business, financial condition and results of operations.

We interact with various third parties such as referral parties and executing brokers who could be overleveraged. In the event of sudden and large market price movements, such market participants may not be able to meet their obligations to brokers who, in turn, may not be able to meet their obligations to their market makers. Thus, if a systemic collapse in the financial system were to occur, defaults by one or more market makers could have a material adverse effect on our business, financial condition and results of operations.

We face significant competition. Some of our competitors and potential competitors have larger client bases, more established brand recognition and greater financial, marketing, technological and personnel resources than we do, any of which could put us at a competitive disadvantage. Additionally, some of our competitors and potential competitors are better capitalised than we are and able to obtain capital more easily which could put us at a competitive disadvantage.

Our Directors consider that our success as a leveraged forex trading service provider is determined by our ability to execute our clients' trades at competitive pricing, to retain our existing clients and to attract new clients. Some competitors, like those international financial institutions, may have larger

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client bases, more established brand recognition, greater market share in the leveraged forex trading market and greater marketing, technological and personnel resources than we do. These advantages may enable them, among other things, to:

- develop products and/or services which are similar to ours, or which are more attractive to clients than ours, in the leveraged forex trading market;
- provide products and/or services we do not offer;
- provide execution and clearing services which are more rapid, reliable or efficient, or less expensive than ours;
- offer products and/or services at prices below ours to gain market share;
- adapt at a faster rate to changes in market conditions, new technologies and client demands;
- offer better, faster and more reliable technology;
- outbid us for desirable acquisition targets;
- more efficiently engage in and expand existing relationships with strategic alliances;
- market, promote and sell their products and services more effectively than we do; and
- develop stronger relationships with clients.

These larger and better capitalised competitors, including global commercial and investment banking institutions, 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 industry, to compete for skilled professionals, to finance acquisitions, to fund internal growth and to compete for market share. Also, new or existing competitors in our markets could make it difficult for us to maintain or expand our current market share or increase it in the market. In addition, our competitors could offer their services at lower prices, and we may be required to reduce our fees significantly to remain competitive. A fee reduction without a commensurate reduction in expenses would decrease our profitability. We may in the future face increased competition, resulting in narrowing bid/offer spreads which could materially adversely affect our business, financial condition and results of operations.

If our reputation is damaged, or the reputation of the online financial services industry as a whole or the retail leveraged forex trading industry is damaged, our ability to attract and retain clients may be adversely affected.

Our ability to attract and retain clients and staff may be adversely affected if our reputation is damaged. Such reputational issues include, but are not limited to, appropriately dealing with potential conflicts of interest, legal and regulatory requirements, ethical issues, money laundering, terrorist

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financing, privacy, client data protection, record keeping, sales and trading practices and the proper identification of the legal, credit, liquidity, operational and market risks inherent in our business. Failure to appropriately address these issues could also give rise to additional legal risk to us, which could, in turn, increase the size and number of claims and damages asserted against us or subject us to regulatory enforcement actions, fines and penalties. Any such sanction would adversely affect our reputation, thereby reducing our ability to attract and retain clients and staff.

In addition, our ability to attract and retain clients may be adversely affected if the reputation of the online financial services industry as a whole or the retail leveraged forex trading industry is damaged. Any reputational or legal issues against any institution in the online financial services industry may result in adverse publicity and damage the reputation of the online financial services industry as a whole, which in turn could adversely affect our ability to attract and retain clients.

We may be unable to respond to clients' demands for new services and products and our business, financial condition and results of operations may be adversely affected.

Our business is subject to rapid changes and evolving industry standards. New services and products provided by our competitors may render our existing services and products less competitive. Our future success will depend, in part, on our ability to respond to clients' demands for new services and products in an efficient and cost-effective manner and to adapt to our address the increasingly sophisticated requirements and varied needs of our current and prospective clients. We may not be successful in developing, introducing or marketing new services and products. In addition, our new service and product enhancements may not achieve market acceptance. Any failure on our part to anticipate or respond adequately to client requirements or changing industry practices, or any significant delays in the development, introduction or availability of new services, products or service or product enhancements could have a material adverse effect on our business, financial condition and results of operations.

New lines of business or new products and services may subject us to additional risks.

There are substantial risks and uncertainties associated with new products and services, particularly where the markets are not fully developed. Despite significant investments of time and resources, initial timetables for the introduction and development of new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the successful implementation of a new product or service. Furthermore, any new product or service could have a significant impact on the effectiveness of our internal control system. Failure to manage these risks adequately in the development and implementation of new products or services could have an adverse effect on our business, financial condition and results of operations.

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Attrition of client accounts and failure to attract new accounts could have a material adverse effect on our business, financial condition and results of operations. Even if we do attract new clients, we may fail to attract clients in a cost-effective manner, which could adversely affect our profitability and growth.

Our efforts to attract new clients or reduce the attrition rate of our existing clients through sales and marketing campaigns may not be successful. During the Track Record Period, our Group incurred a total of approximately HK\$4.4 million in marketing, advertising and promotion expenses, representing approximately 1.6% of our total income. If we are unable to maintain or increase our client retention rates or generate a substantial number of new clients in a cost-effective manner, our business, financial condition and results of operations would be adversely affected.

Additionally, our advertising and marketing methods may be subject to new regulations introduced by local regulators which restrict our advertising and marketing strategies. If we are unable to achieve our marketing objectives, our profitability and growth may be adversely affected. Please refer to the paragraph headed “Sales and marketing” in the section headed “Business” in this prospectus for more information on our Group’s principal marketing strategies.

RISKS ASSOCIATED WITH THE PLACING

The Placing Shares are not underwritten.

The Placing Shares are not underwritten and the Placing is managed by the Joint Lead Managers on a best-efforts basis, subject to the terms and conditions of the Placing Agreement. Therefore, there is no guarantee that the Placing will proceed as scheduled. Should the amount of gross proceeds raised under the Placing be less than HK\$155,191,940 (being 343,345,000 Placing Shares times the Placing Price of HK\$0.452 per Placing Share), the Placing will not proceed.

There has been no prior public market for the Shares and thus an active or liquid trading market for the Shares may not develop and the trading price of the Shares may be volatile.

The Listing is by way of the Placing and the Shares have not been listed or quoted on any stock exchange or open market before completion of the Placing. There is no assurance that there will be an active trading market of the Shares on GEM upon the Listing. In addition, the market price of the Shares to be traded on GEM may differ from the Placing Price and prospective investors should not treat the Placing Price as an indicator of the market price of the Shares to be traded on GEM.

Upon the Listing, the trading volume and market price of the Shares may be affected or influenced by a number of factors from time to time, including but not limited to, the income, profit and cash flow of our Group, new products, services and/or investments of our Group, changes of senior management personnel of our Group and general economic conditions. There is no assurance that such factors will not occur and it is difficult to quantify the impact on our Group and the trading volume and market price of the Shares.

RISK FACTORS

Purchasers of the Placing Shares will experience immediate dilution and may experience further dilution if our Company issues additional Shares or other securities in the future.

The Placing Price is expected to be higher than the net tangible asset value per Share immediately prior to the Placing. Therefore, the purchasers of the Placing Shares will experience an immediate dilution in pro forma net tangible asset value to HK\$0.186 per Share based on the Placing Price of HK\$0.452 per Placing Share.

One of the benefits to our Company upon the Listing is access to the capital market and our Group may raise additional funds to finance future expansion of our business, operations or acquisitions. Our Company will comply with Rule 17.29 of the GEM Listing Rules, which specifies that no further Shares or securities convertible into equity securities of our Company (subject to certain exceptions) may be issued or form the subject of any agreement to be issued within six months from the Listing Date. Upon expiry of such six-month period, our Group may raise additional funds by issuing new equity or equity-linked securities of our Company and such fund raising exercises may not be conducted on a pro rata basis to our then existing Shareholders. As such, shareholding of our then Shareholders may be reduced or diluted and subject to the terms of issue of the new securities, the new securities may confer rights and privileges which have priority over those conferred by the issued Shares.

Issue of new Shares under the Share Option Scheme may decrease our Shareholders' value of investment.

Our Company has conditionally adopted the Share Option Scheme. Following the grant of any options under the Share Option Scheme in the future and the issue of new Shares upon the exercise of the options which may be granted under the Share Option Scheme, there will be a dilution or reduction in shareholding of our then Shareholders and it may also result in a dilution or reduction in the earnings per Share or net asset value per Share.

Sale or perceived sale of substantial amounts of the Shares in the public market after the Placing could adversely affect the prevailing market price of the Shares.

The Shares beneficially owned by our Controlling Shareholders are subject to certain lock-up periods under the GEM Listing Rules. There is no assurance that our Controlling Shareholders, whose interests may be different from those of our other Shareholders, will not dispose of their Shares following expiration of the lock-up periods. Sale of substantial amounts of the Shares in the public market, or the perception that such sale may occur, could adversely affect the prevailing market price of the Shares.

RISK FACTORS

RISKS ASSOCIATED WITH THIS PROSPECTUS

Certain information and statistics in this prospectus have not been independently verified.

This prospectus includes certain information and statistics which have been extracted from various official government publications and other sources. We believe that the sources of these information and statistics are appropriate sources for such information and statistics and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information and statistics are false or misleading or that any fact has been omitted which would render such information and statistics false or misleading. The information and statistics have not been independently verified by us, the Sponsor, the Bookrunner, the other Placing Agents or any other party involved in the Placing and no representation is given as to their accuracy. As such, no undue reliance should be placed on those statistics and information by prospective investors.

Forward-looking statements in this prospectus may prove inaccurate.

This prospectus contains certain forward-looking statements relating to the plans, objectives, expectations and intentions of our Directors. Such forward-looking statements are based on numerous assumptions as to the present and future business strategies of our Group and the development of the environment in which our Group operates. These statements involve known and unknown risks, uncertainties and other factors which may cause the actual financial results, performance or achievements of our Group to be materially different from the anticipated financial results, performance or achievements of our Group expressed or implied by these statements. The actual financial results, performance or achievements of our Group may differ materially from those discussed in this prospectus.

WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES

For the purpose of the Listing, our Company has sought the following waiver from the Stock Exchange in relation to certain requirements under the GEM Listing Rules.

CONNECTED TRANSACTIONS

Our Group has entered into and are expected to continue certain transactions, which will constitute non-exempt continuing connected transactions of our Company under the GEM Listing Rules upon the Listing. The Sponsor has applied to the Stock Exchange for a waiver on behalf of our Company from strict compliance with the announcement and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules in respect of such non-exempt continuing connected transactions.

The Stock Exchange has granted a waiver from strict compliance with the applicable requirements under the GEM Listing Rules as mentioned above and our Company will comply with the relevant requirements of Chapter 20 of the GEM Listing Rules, including Rules 20.35(1), 20.35(2), 20.36, 20.37, 20.38, 20.39 and 20.40 of the GEM Listing Rules, upon the Listing. Further details of such waiver are set out in the section headed "Connected Transactions" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

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

Printed copies of this prospectus are available, for information purpose only, at the offices of (a) Cinda International Securities Limited at 45th Floor, Cosco Tower, 183 Queen's Road Central, Hong Kong; (b) Quam Securities Company Limited at 18th-19th Floors, Aon China Building, 29 Queen's Road Central, Hong Kong; (c) VC Brokerage Limited at 28th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong; and (d) RHB OSK Securities Hong Kong Limited at 12th Floor, World-Wide House, 19 Des Voeux Road Central, Central, Hong Kong from 4:00 p.m. to 5:00 p.m. on Tuesday, 11 June 2013, and from 9:00 a.m. to 5:00 p.m. from Thursday, 13 June 2013 to Friday, 14 June 2013 and on Monday, 17 June 2013.

PLACING SHARES ARE NOT UNDERWRITTEN

This prospectus is published solely in connection with the Placing and the Listing is solely sponsored by Quam Capital. **The Placing Shares are not underwritten and the Placing is managed by the Joint Lead Managers on a best-efforts basis, subject to the terms and conditions of the Placing Agreement.** Further details about the Placing Agents and the Placing arrangements are contained in the section headed "Structure of the Placing" in this prospectus. **Should the amount of gross proceeds raised under the Placing be less than HK\$155,191,940 (being 343,345,000 Placing Shares times the Placing Price of HK\$0.452 per Placing Share), the Placing will not proceed.**

PLACING PRICE

The Placing Shares are being offered at the Placing Price.

PLACING SHARES TO BE OFFERED IN HONG KONG ONLY

Each person acquiring the Placing Shares will be required to confirm, or be deemed by his/her/its acquisition of Placing Shares to confirm, that he/she/it is aware of the restrictions on placing and sales of the Placing Shares described in this prospectus and that he/she/it is not acquiring, and has not been offered, any Placing Shares in circumstances which contravene any such restrictions.

No action has been taken in any jurisdiction other than Hong Kong to permit the offering of the Placing Shares or the general distribution of this prospectus. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

Without limiting the above, the offer of the Placing Shares is not available, and no application will be accepted from any person, in New Zealand and Australia.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

The Placing Shares are offered for subscription solely on the basis of the information contained and representations made in this prospectus. No person is authorised in connection with the Placing to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied on as having been authorised by our Company, the Sponsor, the Bookrunner, the other Placing Agents, any of their respective directors or any other persons or parties involved in the Placing.

APPLICATION FOR LISTING ON GEM

Application has been made to the Listing Division for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the Capitalisation Issue and the Placing and upon the exercise of the options that may be granted under the Share Option Scheme).

No part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

Under section 44B(1) of the Companies Ordinance, if the permission for the Shares offered under this prospectus to be listed on GEM has been refused before the expiration of three weeks from the date of the closing of the Placing or such longer period not exceeding six weeks as may, within the said three weeks, be notified to our Company for permission by or on behalf of the Listing Division, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of the Listing and at all times thereafter, our Company must maintain the “minimum prescribed percentage” of 25% of the issued share capital of our Company in the hands of the public. A total of 343,345,000 Placing Shares together with an aggregate of 156,655,000 Shares to be held by the Pre-Listing Investors, representing 25% of our Company’s enlarged issued share capital, will be in the hands of the public immediately following completion of the Capitalisation Issue and the Placing (assuming the options which may be granted under the Share Option Scheme are not exercised).

PROFESSIONAL TAX ADVICE RECOMMENDED

Prospective investors for the Placing Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding, purchase, disposal of or dealing in, the Shares or exercising their rights thereunder. It is emphasised that none of our Company, our Directors, the Sponsor, the Bookrunner, the other Placing Agents, their respective directors, agents or advisers or any other persons involved in the Placing accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, holding, purchase, disposal of or dealing in, the Shares or exercising their rights thereunder.

STAMP DUTY

All the Shares will be registered with the branch register of members of our Company in Hong Kong in order to enable them to be traded on GEM. Only Shares registered with our branch register of members maintained in Hong Kong may be traded on GEM, unless the Stock Exchange otherwise agrees.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

Dealings in the Shares registered with our branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty.

OUR SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, the Shares in issue and to be issued on GEM and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or, under contingent situation, any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Prospective investors should seek the advice of their stockbrokers or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

Details of the Placing will be announced in accordance with Rules 10.12(4), 16.08 and 16.16 of the GEM Listing Rules.

STRUCTURE AND CONDITIONS OF THE PLACING

Details of the structure of the Placing, including its conditions, are set out in the section headed “Structure of the Placing” in this prospectus.

COMMENCEMENT OF DEALING IN THE SHARES

Dealing in the Shares on the Stock Exchange is expected to commence on 3 July 2013. Shares will be traded in board lots of 5,000 Shares each.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this English prospectus shall prevail.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as total in certain tables may not be an arithmetic aggregation of the figures preceding them.

MANAGEMENT PERSONNEL AND PARTIES INVOLVED IN THE PLACING

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. LIU Stefan (劉欣諾先生) (chief executive officer)	2102/9 Railway Street Chatswood, NSW 2067 Australia	New Zealand
Mr. NG Chee Hung Frederick (吳棋鴻先生)	Flat A, 14th Floor, Block 1 Beverly Heights 56 Cloud View Road North Point Hong Kong	Chinese
<i>Non-executive Directors</i>		
Mr. Li (chairman)	Flat E, 22nd Floor, Block 2 Le Sommet 28 Fortress Hill Road North Point Hong Kong	Chinese
Mr. Stephen Gregory McCOY	Unit 3, 2 Anvil Place Jamisontown NSW 2750 Australia	Australian
<i>Independent non-executive Directors</i>		
Ms. ZHAO Guixin (趙桂馨女士)	845 United Nations Plaza Apartment 6D New York NY10017 US	Chinese
Mr. Cornelis Jacobus KEYSER	9 Ambassador Glade Orewa, Auckland 0931 New Zealand	New Zealand
Mr. LIN Wenhui (林文輝先生)	No. 501, Unit 6 No. 104 Qun Fang Yi Yuan Tongzhou District, Beijing PRC	Chinese

MANAGEMENT PERSONNEL AND PARTIES INVOLVED IN THE PLACING

SENIOR MANAGEMENT

Name	Position	Address
Ms. ZHANG Rongjun (張溶君女士)	Regional financial controller of New Zealand and Australia	3 Boyd Avenue Royal Oak Auckland 1061 New Zealand
Mr. HUANG Songyuan (黃頌源先生)	Director of global margin business	5 Elkstone Place Henderson Heights Waitakere City New Zealand
Mr. SO Chi Hang Stephen (蘇志恒先生)	Head of investment of KVB AU	144 Killarney Drive Killarney Heights NSW 2087 Australia
Mr. WAI Chi Hong Christopher (韋志康先生)	Project management officer	Flat ND, 11th Floor Tower 2, Festival City Phase 1 1 Mei Tin Road Tai Wai, Shatin Hong Kong
Ms. Tracy Marie BYRNE	Head of risk and compliance	Unit 2 18-22 Fielding Street Collaroy NSW 2097 Australia

MANAGEMENT PERSONNEL AND PARTIES INVOLVED IN THE PLACING

PARTIES INVOLVED

Sponsor

Quam Capital Limited
18th-19th Floors, Aon China Building
29 Queen's Road Central
Hong Kong

Bookrunner

Cinda International Securities Limited
45th Floor, Cosco Tower
183 Queen's Road Central
Hong Kong

Joint Lead Managers

Cinda International Securities Limited
45th Floor, Cosco Tower
183 Queen's Road Central
Hong Kong

Quam Securities Company Limited
18th-19th Floors, Aon China Building
29 Queen's Road Central
Hong Kong

Legal advisers to our Company

as to Hong Kong law:

Deacons
5th Floor, Alexandra House
18 Chater Road, Central
Hong Kong

as to New Zealand law:

Kensington Swan Lawyers
18 Viaduct Harbour Avenue
Auckland City 1010
New Zealand

as to Australian law:

Block Legal & Compliance
Suite 2007, Level 20
109 Pitt Street
Sydney NSW 2000
Australia

MANAGEMENT PERSONNEL AND PARTIES INVOLVED IN THE PLACING

as to Cayman Islands law:

Conyers Dill & Pearman (Cayman) Limited

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman
KY1-1111
Cayman Islands

as to BVI law:

Conyers Dill & Pearman

Commerce House
Wickhams Cay 1
PO Box 3140
Road Town
Tortola VG1110
BVI

as to PRC law:

King & Wood Mallesons

40th Floor, Tower A, Beijing Fortune Plaza
7 Dongsanhuan Zhonglu
Chaoyang District
Beijing 100020
PRC

**Legal advisers to the Sponsor
and the Placing Agents**

as to Hong Kong law:

Pang & Co

in association with Loeb & Loeb LLP

21st Floor, CCB Tower
3 Connaught Road Central
Hong Kong

as to New Zealand law:

Minter Ellison Rudd Watts

Level 20
Lumley Centre
88 Shortland Street
Auckland 1010
New Zealand

MANAGEMENT PERSONNEL AND PARTIES INVOLVED IN THE PLACING

as to Australian law:

Minter Ellison

Aurora Place
88 Phillip Street
Sydney NSW 2000
Australia

Reporting accountant

PricewaterhouseCoopers

Certified Public Accountants
22nd Floor, Prince's Building, Central
Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarters and principal place of business in Hong Kong	Suites 7501 & 7508, 75th Floor International Commerce Centre 1 Austin Road West, Kowloon Hong Kong
Company's website	www.kvblastco.com <i>(Note: Contents in this website do not form part of this prospectus)</i>
Company secretary	Ms. CHENG Wing Sze (鄭詠詩女士) (ACS, ACIS)
Compliance officer (for the purpose of the GEM Listing Rules)	Mr. NG Chee Hung Frederick (吳棋鴻先生) (CHFS)
Authorised representatives (for the purpose of the GEM Listing Rules)	Mr. LIU Stefan (劉欣諾先生) 2102/9 Railway Street Chatswood, NSW 2067 Australia Ms. CHENG Wing Sze (鄭詠詩女士) Suites 7501 & 7508, 75th Floor International Commerce Centre 1 Austin Road West, Kowloon Hong Kong
Audit committee	Mr. LIN Wenhui (林文輝先生) (<i>chairman</i>) Ms. ZHAO Guixin (趙桂馨女士) Mr. Cornelis Jacobus KEYSER
Remuneration committee	Ms. ZHAO Guixin (趙桂馨女士) (<i>chairman</i>) Mr. Cornelis Jacobus KEYSER Mr. LIN Wenhui (林文輝先生)
Nomination committee	Ms. ZHAO Guixin (趙桂馨女士) (<i>chairman</i>) Mr. Cornelis Jacobus KEYSER Mr. LIN Wenhui (林文輝先生)

CORPORATE INFORMATION

Corporate governance committee	Mr. Cornelis Jacobus KEYSER (<i>chairman</i>) Mr. LIU Stefan (劉欣諾先生) Ms. ZHAO Guixin (趙桂馨女士) Mr. LIN Wenhui (林文輝先生)
Principal share registrar and transfer office in the Cayman Islands	Codan Trust Company (Cayman) Limited Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Branch share registrar and transfer office in Hong Kong	Union Registrars Limited 18th Floor, Fook Lee Commercial Centre, Town Place 33 Lockhart Road, Wanchai Hong Kong
Principal bankers	ANZ Bank New Zealand Limited Level 16, The National Bank Centre 209 Queen Street, Auckland New Zealand Bank of Communications Co., Ltd., Hong Kong branch 20 Pedder Street, Central Hong Kong The Bank of East Asia, Limited 8th Floor, 10 Des Voeux Road Central Hong Kong Citibank, N.A. 44th Floor, Citibank Tower Citibank Plaza 3 Garden Road, Central Hong Kong
Compliance adviser	Quam Capital Limited 18th-19th Floors, Aon China Building 29 Queen's Road Central Hong Kong

INDUSTRY OVERVIEW

We have extracted and derived the information in this section from various official government publications or other sources. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted which would render such information false or misleading. The information has not been independently verified by us, the Sponsor, the Bookrunner, the other Placing Agents or any other party involved in the Placing and no representation is given as to its accuracy.

SOURCES OF INFORMATION

Certain information and statistics set forth in this section are derived from reports and publications of the BIS, the Chicago Board Options Exchange (the “CBOE”), Deutsche Bank (“DB”), the RBNZ, the Reserve Bank of Australia (the “RBA”), the HKMA, the World Bank, Aite Group, KPMG International Cooperative (“KPMG”), LeapRate and Dow Jones & Company. Reports and publications prepared by the BIS, the Chicago Board Options Exchange, Deutsche Bank, the RBNZ, the Reserve Bank of Australia, the HKMA, the World Bank, Aite Group, KPMG International Cooperative, LeapRate and Dow Jones & Company were not commissioned by our Company or the Sponsor and, except for those prepared by Aite Group, LeapRate and Dow Jones & Company, were obtained from public domain or the internet.

The BIS

The BIS is an international organisation which fosters international monetary and financial cooperation and serves as a bank for central banks. The BIS also carries out research and analysis to contribute to the understanding of issues of core interest to the central bank community, to assist the organisation of meetings of Governors and other central bank officials and to provide analytical support to the activities of the various Basel-based committees. Every three years, the BIS coordinates a global central bank survey designed to yield comprehensive and internationally consistent information on the size and structure of forex and over-the-counter derivatives markets. By increasing market transparency, the survey aims to help monetary authorities and market participants better monitor patterns of activity and exposures in the global financial system.

The information contained in this prospectus from the BIS is publicly available information.

The CBOE

The CBOE is a NASDAQ listed options exchange and is the largest options exchange in the US. The CBOE also compiles many indices including benchmark indices, volatility indices and indices on exchange traded products.

The information contained in this prospectus from the CBOE is publicly available information.

INDUSTRY OVERVIEW

DB

DB is a German global banking and financial services company. The DB index team compiles comprehensive and proprietary investible and benchmark indices and is a leading provider of indices spanning all major asset classes and regions.

The information contained in this prospectus from DB is publicly available information.

The RBNZ

The RBNZ is New Zealand's central bank which promotes a sound and dynamic monetary and financial system in New Zealand. Its main functions are operating monetary policy to achieve and maintain price stability; assisting the functioning of a sound and efficient financial system; meeting the currency needs of the public; overseeing and operating efficient payment systems; and providing effective support services to the RBNZ. The RBNZ also publishes a quarterly bulletin which canvasses a wide range of issues related to both central banking and the New Zealand economy.

The information contained in this prospectus from the RBNZ is publicly available information.

The RBA

The RBA is Australia's central bank which conducts monetary policy, works to maintain a strong financial system and issues Australia's currency. The duty of the RBA is to contribute to the stability of the currency of Australia; the maintenance of full employment in Australia; and the economic prosperity and welfare of the people of Australia. The RBA also publishes a bulletin which discusses economic and financial developments as well as its operations.

The information contained in this prospectus from the RBA is publicly available information.

The HKMA

The HKMA is the government authority in Hong Kong responsible for maintaining monetary and banking stability. Its main functions are maintaining currency stability within the framework of the Linked Exchange Rate system; promoting the stability and integrity of the financial system, including the banking system; helping to maintain Hong Kong's status as an international financial centre, including the maintenance and development of Hong Kong's financial infrastructure; and managing the Exchange Fund. The HKMA also publishes a quarterly bulletin which carries regular reporting and analyses on the policies of the its key activities in fulfilling its central banking functions and provides a forum to explain its philosophy and policies, particularly new policy measures.

The information contained in this prospectus from the HKMA is publicly available information.

INDUSTRY OVERVIEW

The World Bank

The World Bank is an international financial institution, an umbrella organisation comprising various agencies and departments. The development economics department of the World Bank compiles various research and analyses articles on the global monitoring and projections of trends driving development in the world economy, especially on trade, financial flows, commodity prices and compilation of international statistics on the aforementioned areas.

The information contained in this prospectus from the World Bank is publicly available information.

Aite Group

Headquartered in Boston with a presence in Chicago, New York, San Francisco, London and Milan, Aite Group is an independent research and advisory firm focused on business, technology, and regulatory issues and their impact on the financial services industry. Its ongoing research is based on comprehensive industry discussions with key decision makers in the financial services industry formulated and managed by the analysts of Aite Group. Aite Group is an Independent Third Party.

The methodology adopted by Aite Group in preparing the report for use in this section includes:

- (a) Aite Group's information matrix of 79 large and medium forex brokers, which relies on publicly available information from 40 of these forex brokers and on Aite Group's forex industry expertise;
- (b) a combination of publicly available information (including information from companies engaging in forex business and listed in the US) and professional estimates of Aite Group; and
- (c) use of information from ForexDatasource as benchmark.

Certain information contained in this prospectus is extracted from Aite Group's report which was purchased by our Group for US\$5,250. Aite Group's report is not commissioned by our Group or the Sponsor.

KPMG

KPMG is a global professional services firm specialising in providing audit, tax and advisory services for a wide range of industry sectors. KPMG distributes various publications online and in print, touching upon the major service areas and industry sectors it serves, including the research report used in this prospectus, Quarterly Commodity Insights Bulletin for Gold (the "**KPMG Bulletin**"), published in December 2011.

The information contained in this prospectus from KPMG is publicly available information.

INDUSTRY OVERVIEW

LeapRate

LeapRate is an independent research and advisory firm, covering the world of online forex and contract for difference trading. LeapRate's research aims to provide increased transparency to the world of online trading, allowing investors to make more informed decisions in their choice of a trading firm. LeapRate is an Independent Third Party.

Dow Jones & Company

Dow Jones & Company is an American publishing and financial information firm founded in 1882. Dow Jones & Company delivers world-class financial news and business intelligence through newswires, websites, newspapers and other media. Dow Jones & Company's business news provides competitive intelligence that includes the latest corporate news and earnings data as well as reports on mergers and acquisitions, private equity news, real-time prices in the currency trading markets, daily bankruptcy reports, high-yield investing coverage, and other market intelligence. From helping develop algorithmic trading strategies to anti-money laundering policies to improved risk management, Dow Jones aims to help enterprises and individuals access and understand the news and intelligence they need to transform information into insight. Dow Jones & Company is an Independent Third Party.

Certain information contained in this prospectus is extracted from an industry report jointly issued by LeapRate and Dow Jones & Company (the "**Joint Report**") which was purchased by our Group for EUR200. The Joint Report is not commissioned by our Group or the Sponsor.

GLOBAL FOREX MARKET

Growth of global forex turnover

According to the 2010 Triennial Central Bank Survey (the "**2010 Survey**") (being the latest triennial report compiled by the BIS as at the Latest Practicable Date) conducted by the BIS, there has been an increase in global forex market activity, including spot transactions, outright forwards, forex swaps, currency swaps and currency options since the last survey in 2007, following the unprecedented 72% rise in activity between 2004 and 2007. After the financial crisis in late 2008, the daily average global forex market turnover in April 2010 was 20% higher than that in April 2007. This growth brought average daily turnover from around US\$3.3 trillion in April 2007 to almost US\$4.0 trillion in April 2010 at current exchange rates.

INDUSTRY OVERVIEW

The table below sets out the global forex market daily average turnover by instrument in April 1998, 2001, 2004, 2007 and 2010:

Global forex market turnover ^(Note 1)

Daily averages in April, in billions of US\$

Instrument/maturity	1998	2001	2004	2007	2010
Forex instruments	1,527	1,239	1,934	3,324	3,981
Spot transactions ^(Note 2)	568	386	631	1,005	1,490
Outright forwards ^(Note 2)	128	130	209	362	475
Up to seven days	65	51	92	154	219
Over seven days	62	80	116	208	256
Forex swaps ^(Note 2)	734	656	954	1,714	1,765
Up to seven days	528	451	700	1,329	1,304
Over seven days	202	204	252	382	459
Currency swaps	10	7	21	31	43
Options and other forex products ^(Note 3)	87	60	119	212	207

Memo:

Turnover at April 2010

<i>exchange rates</i> ^(Note 4)	1,705	1,505	2,040	3,370	3,981
<i>Estimated gaps in reporting</i>	49	30	116	152	144
<i>Exchange-traded derivatives</i> ^(Note 5)	11	12	26	80	168

Notes:

- 1 Adjusted for local and cross-border inter-dealer double-counting (i.e. “net-net” basis).
- 2 Previously classified as part of the so-called “traditional forex market”.
- 3 The category “other forex products” covers highly leveraged transactions and/or trades whose notional amount is variable and where a decomposition into individual plain vanilla components was impractical or impossible.
- 4 Non-USD legs of foreign currency transactions were converted into original currency amounts at average exchange rates for April of each survey year and then reconverted into USD amounts at average April 2010 exchange rates.
- 5 Sources: FOW TRADEdata; Futures Industry Association; various futures and options exchanges. Reported monthly data was converted into daily averages of 20.5 days in 1998, 19.5 days in 2001, 20.5 days in 2004, 20 days in 2007 and 20 days in 2010.

Source: BIS

INDUSTRY OVERVIEW

Turnover by counterparty

Based on the 2010 Survey, the increase in global forex market turnover in 2010 is largely due to the enlarged trading activity of “other financial institutions” which include non-reporting banks, hedge funds, pension funds, mutual funds, insurance companies and central banks. Turnover by this category increased by approximately 42% from approximately US\$1.3 trillion in April 2007 to approximately US\$1.9 trillion in April 2010.

The table below sets out the global forex market average daily turnover by counterparty in April 1998, 2001, 2004, 2007 and 2010:

Global forex market turnover by counterparty ^(Note)

Daily averages in April, in billions of US\$ and %

Instrument/counterparty	1998		2001		2004		2007		2010	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Total	1,527	100	1,239	64	1,934	100	3,324	100	3,981	100
with reporting dealers	961	63	719	37	1,018	53	1,392	42	1,548	39
with other financial institutions	299	20	346	18	634	33	1,339	40	1,900	48
with non-financial clients	266	17	174	9	276	14	593	18	533	13
Local	698	46	525	42	743	38	1,274	38	1,395	35
Cross-border	828	54	713	58	1,185	61	2,051	62	2,586	65

Note: Adjusted for local and cross-border inter-dealer double-counting (i.e. “net-net” basis). Due to incomplete reporting, components may not sum to totals.

Source: BIS

Turnover by instrument

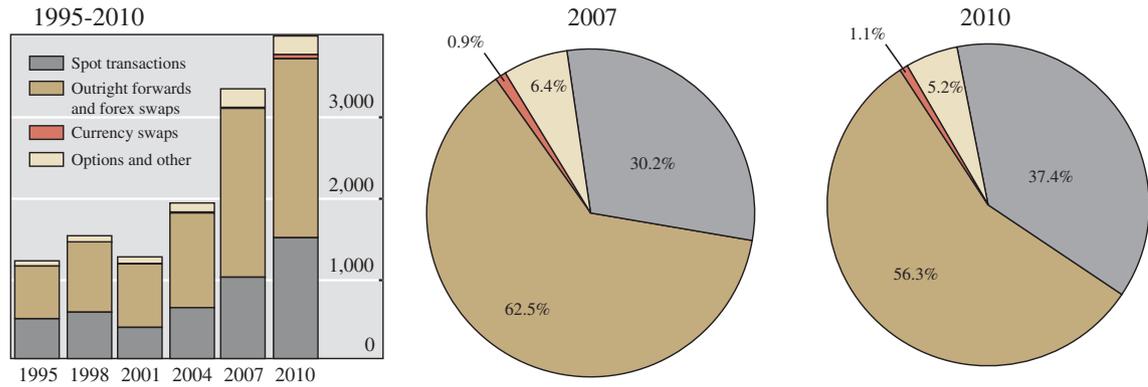
Turnover from forex spot transactions rose from approximately US\$1.0 trillion in 2007 to approximately US\$1.5 trillion in 2010, an increase of 48% at current exchange rates. The increase in turnover in the spot transaction market to a share of approximately 37% of the global forex market activity in April 2010 accounts for three quarters of the overall increase in global forex market activity relative to the previous survey by the BIS in April 2007. The higher turnover in spot transactions is largely due to the increase in active trading by “other financial institutions” including non-reporting banks, hedge funds, pension funds, mutual funds, insurance companies and central banks, followed by inter-dealer trading.

INDUSTRY OVERVIEW

The following graph illustrates the reported forex market daily average turnover by instrument in April 1995, 1998, 2001, 2004, 2007 and 2010:

Reported forex market turnover by instrument (Note)

Daily averages in April, in billions of US\$



Note: Adjusted for local and cross-border inter-dealer double-counting (i.e. “net-net” basis). Excludes estimated gaps in reporting.

Source: BIS

Turnover by currency

During the three years between 2007 and 2010, the currency composition of turnover has seen only slight changes. The market share of the top three currencies (USD, EUR and JPY) increased by three percentage points, with the market share of the top 10 increasing by only 1.4 percentage points. The biggest increases were seen for EUR and JPY, and the biggest decline for GBP. The most significant increases in emerging market currencies were seen for the Turkish lira, RMB and Korean won, followed by the Brazilian real and Singapore dollar. RMB now accounts for almost 1% of global turnover, on a par with the Indian rupee and the Russian rouble.

INDUSTRY OVERVIEW

The table below sets out the currency distribution of global forex market percentage shares of average daily turnover in April 1998, 2001, 2004, 2007 and 2010:

Currency distribution of global forex market turnover ^(Note)

Percentage shares of average daily turnover in April

Currency	1998	2001	2004	2007	2010
USD	86.8	89.9	88.0	85.6	84.9
EUR	–	37.9	37.4	37.0	39.1
JPY	21.7	23.5	20.8	17.2	19.0
GBP	11.0	13.0	16.5	14.9	12.9
AUD	3.0	4.3	6.0	6.6	7.6
HKD	1.0	2.2	1.8	2.7	2.4
NZD	0.2	0.6	1.1	1.9	1.6
RMB	0.0	0.0	0.1	0.5	0.9
Other currencies	76.3	28.6	28.3	33.6	31.6
All currencies	200.0	200.0	200.0	200.0	200.0

Note: Because two currencies are involved in each transaction, the sum of the percentage shares of individual currencies totals 200% instead of 100%. Adjusted for local and cross-border inter-dealer double-counting (i.e. “net-net” basis).

Source: BIS

Turnover by currency pair

According to the 2010 Survey, there were no major changes in ranking for turnover by currency pair between April 2007 and April 2010, although absolute turnover in the major currency pairs tended to increase, with the exception of USD/GBP transactions. USD/EUR remained by far the dominant pair with an approximate 28% share in the global forex market, followed at some distance by USD/JPY with a slight increase to approximately 14% of turnover.

INDUSTRY OVERVIEW

The table below shows the global forex market daily average turnover by currency pair in April 2001, 2004, 2007 and 2010:

Global forex market turnover by currency pair ^(Notes)

Daily averages in April, in billions of US\$ and %

Currency pair	2001		2004		2007		2010	
	Amount	%	Amount	%	Amount	%	Amount	%
USD/EUR	372	30	541	28	892	27	1,101	28
USD/JPY	250	20	328	17	438	13	568	14
USD/GBP	129	10	259	13	384	12	360	9
USD/AUD	51	4	107	6	185	6	249	6
USD/CHF	59	5	83	4	151	5	168	4
USD/CAD	54	4	77	4	126	4	182	5
USD/Swedish krona	6	0	7	0	57	2	45	1
USD/other	193	16	300	16	612	18	705	18
EUR/JPY	36	3	61	3	86	3	111	3
EUR/GBP	27	2	47	2	69	2	109	3
EUR/CHF	13	1	30	2	62	2	72	2
EUR/other	22	2	44	2	123	4	162	4
Other currency pairs	28	2	50	3	139	4	149	4
All currency pairs	1,240	100	1,934	100	3,324	100	3,981	100

Notes:

1. Adjusted for local and cross-border inter-dealer double-counting (i.e. "net-net" basis).
2. Figures may not add up to total due to rounding.

Source: BIS

Turnover by execution method

The 2010 Survey revealed that approximately 40% of spot transactions are conducted on electronic trading systems, compared with approximately 12% to approximately 27% for other forex instruments. As noted in previous surveys conducted by the BIS, the spread of electronic trading platforms has also contributed to greater activity by other financial institutions, particularly algorithmic trading.

INDUSTRY OVERVIEW

The following table and graph detail the forex market daily average turnover by execution method in April 2010:

Forex turnover by execution method in April 2010 ^(Note)

Daily averages, in millions of US\$

	Inter-dealer direct	Client direct	Electronic trading systems			Voice broker
			Electronic broking system	Single-bank proprietary platforms	Multi-bank dealing systems	
Spot transactions	237,433	343,390	413,502	227,733	231,199	136,271
Outright forwards	76,530	178,371	46,365	84,614	69,329	38,432
Forex swaps	403,454	369,321	302,338	145,580	152,942	452,761
Forex options	46,043	109,284	12,729	12,525	4,198	29,388

Note: Data may differ slightly from national survey data owing to differences in aggregation procedures and rounding. Adjusted for local and cross-border inter-dealer double-counting (i.e. "net-net" basis).

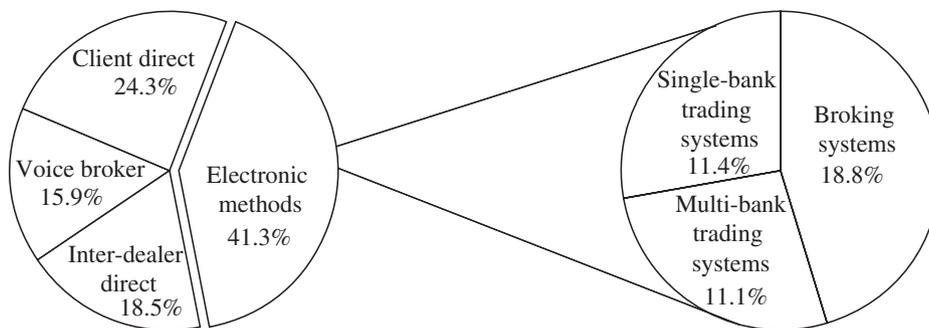
Source: BIS

Forex market turnover by execution method ^(Note)

Daily averages in April 2010

Total

Electronic methods



Note: Adjusted for local and cross-border inter-dealer double-counting (i.e. "net-net" basis).

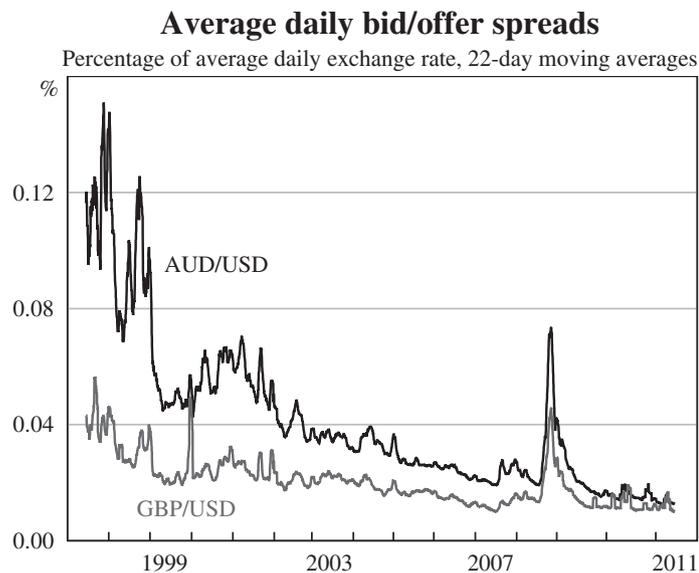
Source: BIS

INDUSTRY OVERVIEW

Electronic trading

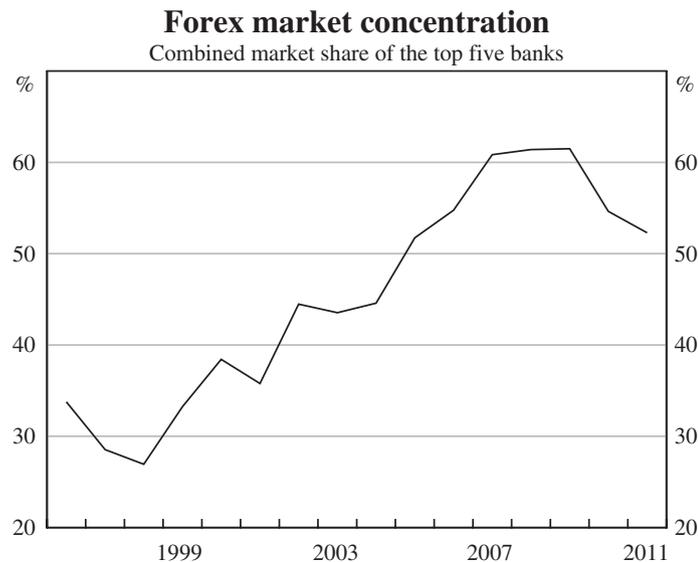
According to the bulletin published by the RBA in June 2011, the increased penetration of electronic trading in the forex market has led, directly or indirectly, to several important changes in the way the market is structured and operates:

- (a) The increased efficiency and transparency of price discovery delivered initially by the electronic broking systems and then by the single-bank and multi-bank trading platforms have driven a marked decline in transaction costs, as measured by the difference between the price at which participants can buy and sell a currency at a point in time, known as the bid/offer spread. The average daily bid/offer spreads from 1999 to 2011 are shown in the graph below:



- (b) Price discovery now takes place across multiple venues, a development sometimes described as “liquidity fragmentation”. Market participants can now aggregate real-time price streams from multiple venues and execute on any one of them, effectively treating multiple markets as one.
- (c) There has been a marked increase in the concentration of forex activity across the books of a relatively small number of large global banks, as shown in the graph below. This reflects, to a large extent, the impact of the single-bank trading platforms on the distribution of forex business. It is notable that the most recent surveys of market concentration indicate a modest decline in concentration as other global banks look to emulate the success of the early movers using this model.

INDUSTRY OVERVIEW

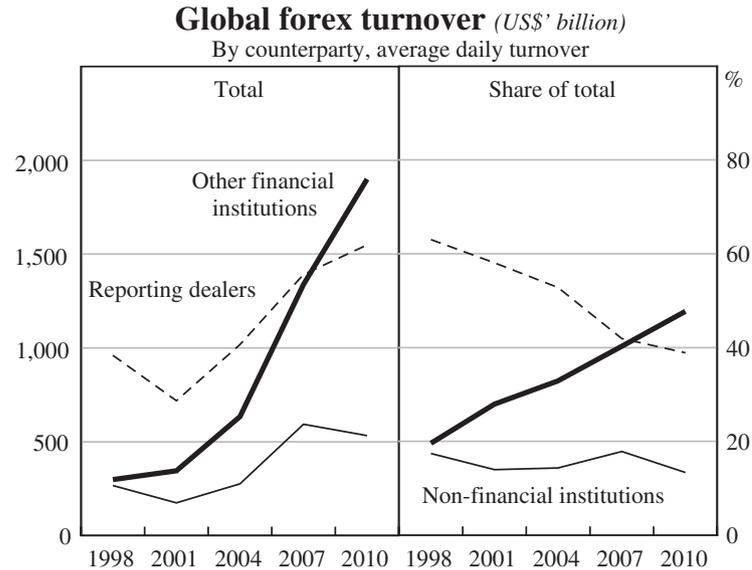


Source: Euromoney

- (d) Increasingly, banks are sourcing foreign currency liquidity for their clients from the large global banks. In some cases, this can involve an arrangement known as white labelling, where a bank provides streaming prices to its client through a proprietary electronic interface. The streaming prices appear to be from the client's bank but are, in fact, being provided directly but anonymously by another bank. In other cases, banks have become clients of the global banks for some foreign currency liquidity, particularly in the major currency pairs, but they continue to provide liquidity directly to their clients and to other banks, including the global banks, in their domestic currencies.
- (e) There has been some breakdown in the distinction between the traditional interdealer and client markets. With direct electronic access and, where required, market maker sponsorship, some non-banks can now directly access pricing and liquidity which was traditionally only available to banks. In addition, there has been some blurring between the roles of banks and their clients. As noted, many banks now participate in the forex market as clients of the largest banks while some non-banks now post bids and offers on electronic platforms, effectively competing with banks as market makers.
- (f) There has been a significant increase in the volume of forex business undertaken by dealers with their clients, which include other financial institutions, such as hedge funds, and non-financial institutions, as shown in the left panel of the graph below. Greater access to both single-bank and multi-bank trading platforms, broader support from market makers and reduced transaction costs are among the factors behind this trend. The increase in the volume of client business is also reflected in a rise in the share of total forex activity globally which is executed by dealers with their clients as shown in the right panel of the graph below. However, this increase also reflects the increasing internalisation of client business by the large dealers; a given volume of client business will now lead to less activity between dealers than it would have 10 years ago.

INDUSTRY OVERVIEW

- (g) Electronic trading has also enabled new client market segments to develop. Retail investors have become an increasingly important part of the market. More recently, attention has increasingly focused on the role of high-frequency traders, for whom the ability to trade electronically is a precondition. Although the development of high-frequency trading was noted as an important new market segment before 2007, there appears to have been particularly strong growth in this market segment between 2007 and 2010.

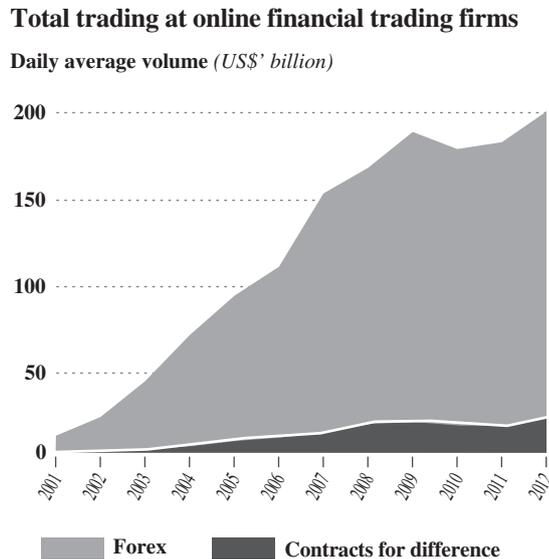


Source: BIS

According to the Joint Report, online trading of forex still accounts for just a small fraction of the total global forex market. LeapRate estimates that online forex trading volumes currently total about US\$185 billion daily, or approximately 4.6% of the overall global forex market. Nevertheless, this represents tremendous growth, from under US\$10 billion per day 10 years ago. Based on the views of LeapRate and Dow Jones & Company on the market size, and their analysis of forex brokerage firms' financials, they estimate total annual revenues of the trading firms to be approximately US\$6 billion.

INDUSTRY OVERVIEW

The graph below sets out the daily average of the total trading at online financial trading firms from 2001 to 2012:



Sources: BIS, Forex Magnates and LeapRate

Geographical distribution of turnover

The 2010 Survey indicated that the geographical distribution of forex trading typically changes slowly over time. Banks located in the United Kingdom accounted for approximately 37% of global forex market turnover, followed by those in the US (18%), Japan (6%), Singapore (5%), Switzerland (5%), Hong Kong (5%) and Australia (4%).

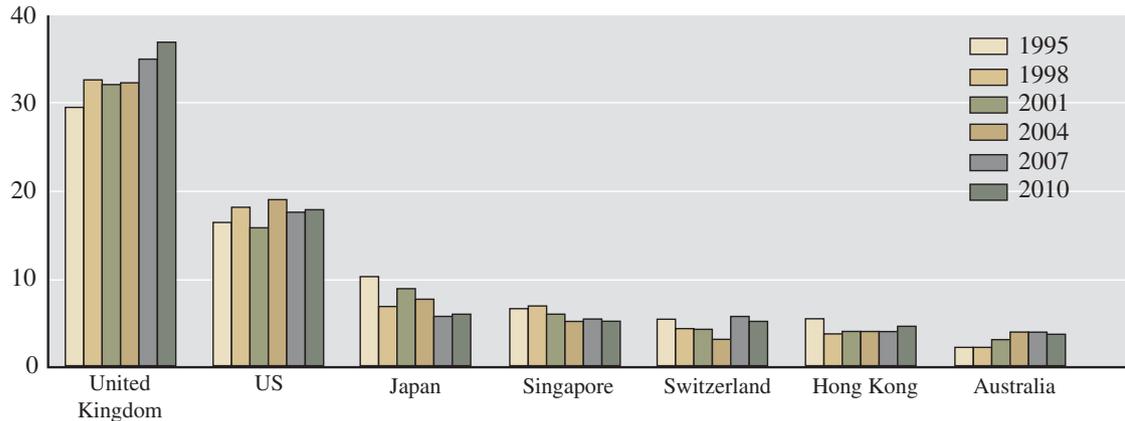
In terms of turnover, the greatest increases in trading activity were in the United Kingdom (US\$370 billion), the US (US\$159 billion), Japan (US\$62 billion) and Hong Kong (US\$57 billion). Other countries which saw significant growth relative to the survey conducted by the BIS in 2007 include Denmark, France, Singapore, Finland, Turkey, Australia and Spain.

INDUSTRY OVERVIEW

Set out below is a graph illustrating the geographical distribution of the forex market daily average turnover in April 1995, 1998, 2001, 2004, 2007 and 2010:

Geographical distribution of forex market turnover ^(Note)

Daily averages in April, in %

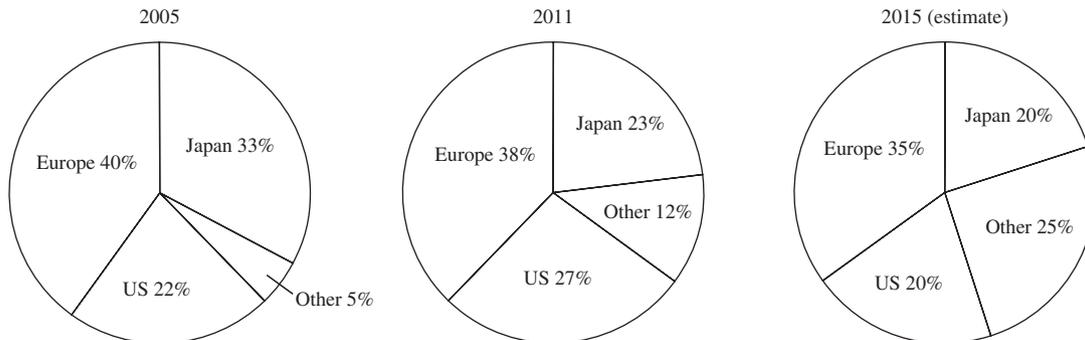


Note: Adjusted for local double-counting (i.e. “net-gross” basis).

Source: BIS

Set out below are the graphs showing the percentage of volume by region at online trading firms in 2005, 2011 and 2015 (estimate):

Percentage volume by region at online trading firms



Source: Joint Report

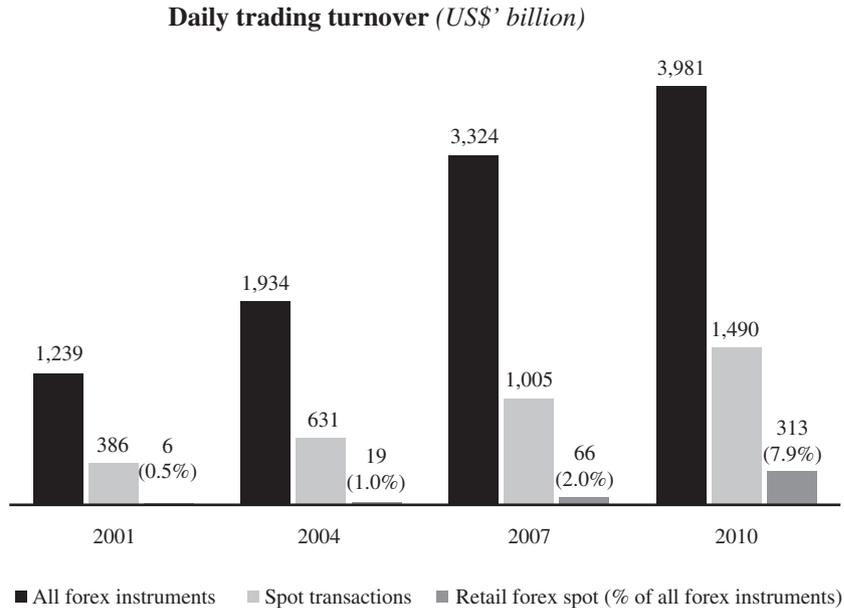
Retail forex market

Introduction

Retail forex is an activity in which individuals perform currency trading over the internet. In forex trading, the retail trader exchanges contracts in the “spot” over-the-counter forex market. Traders do not take physical possession of foreign currency, but rather make/lose money as their highly leveraged forex contracts gain or lose value.

INDUSTRY OVERVIEW

The following graph sets out the overall and retail forex market growth in daily turnover:



Sources: BIS and Aite Group

According to Aite Group's report, the growth in retail forex tracks the increase of forex volume at large over the past 10 years, but also follows its own dynamics. As seen from the above graph, the retail forex spot turnover in 2007 to 2010 increased remarkably from 2.0% to 7.9%. The growth of retail forex has been driven by large numbers of new participants being offered a chance to trade highly leveraged contracts.

Market by client type

According to the Joint Report, the online trading market was designed and built to serve the individual "retail" investor. However, as the industry has grown and matured, and as practices, processes, regulations and technologies at some companies have evolved to where they are today, many institutional firms now prefer to trade via online trading companies, for the same reasons that attracted the retail traders – tight spreads, anonymity, guarantee of execution, high leverage, many products on one platform, 24-hour trading, etc. LeapRate and Dow Jones & Company estimate that institutional traders today account for less than 10% of overall trading volume at online trading firms, up from nearly nil 10 years ago. As the industry continues to mature, and as the industry allows for more visibility and even higher standards of operation, they believe that the institutional potential for online firms could reach 25 to 30% of the overall volumes, although that is probably at least a

INDUSTRY OVERVIEW

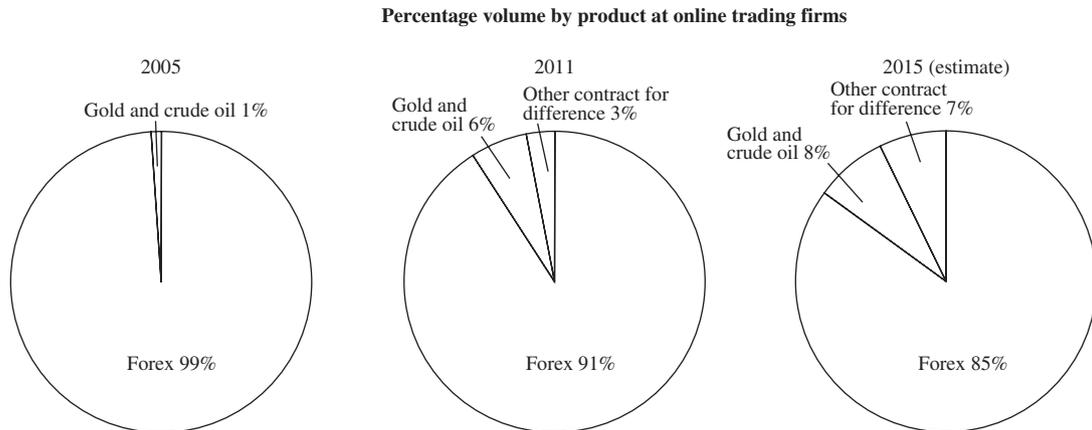
decade away. Set out below are the graphs showing the percentage volume by client type at online trading firms in 2005, 2011 and 2015 (estimate):



Source: Joint Report

Market by product

According to the Joint Report, the online trading industry began almost exclusively with the trading of forex. As the industry has matured, both the demand from clients looking for other things to trade, as well as the forex firms looking for other products to add, has led to a whole range of new products available for trade. LeapRate and Dow Jones & Company estimate that non-forex contract for difference trading accounts today for about 8% to 9% of trading at online firms, but should hit 15% by mid-decade. Set out below are the graphs showing the percentage volume by product at online trading firms in 2005, 2011 and 2015 (estimate):



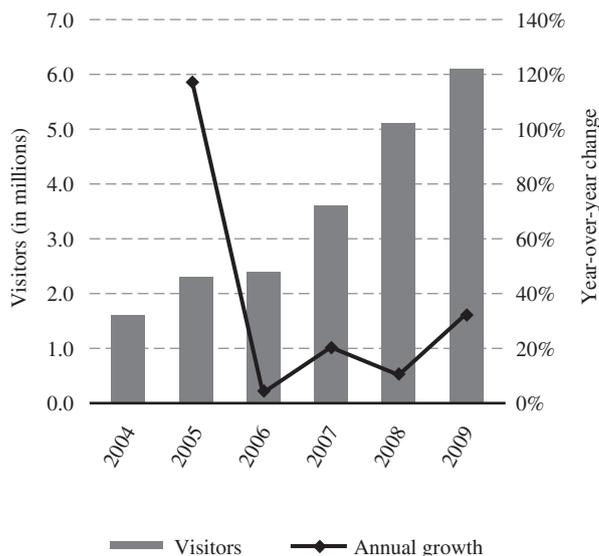
Source: Joint Report

INDUSTRY OVERVIEW

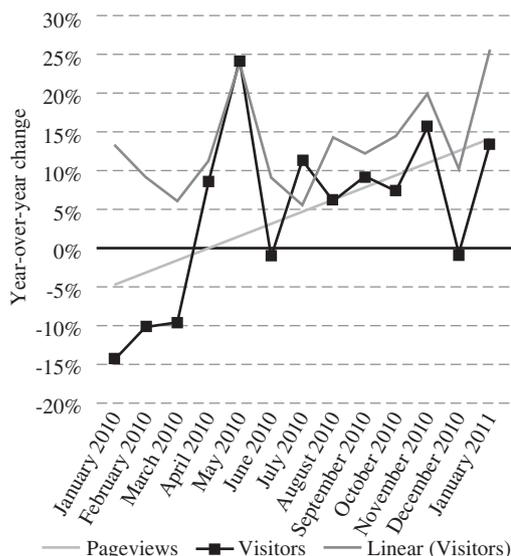
Market size

Set out below are the graphs illustrating the internet traffic to FXStreet.com, a leading website in the global retail forex industry, by individuals who are either English speakers and/or are clients of the 41 non-Japanese brokers Aite Group evaluated for its report for use in this section:

Retail forex traders, 2004 to 2009



Retail forex traders: recent traffic activity



Note: Visitor data for each month was added to generate the annual figures.

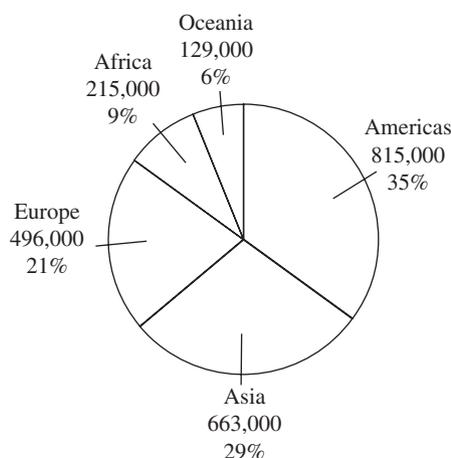
Source: FXStreet.com

As seen from the above graphs, the growth in visitors to forex trading portals was steady over the past few years and was on track to reach 20% in 2011.

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.

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

INDUSTRY OVERVIEW

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 ^(Note) (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

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.

Our Directors consider that no official statistics is available regarding the market share of our Group in the leveraged forex and other trading industry in each of New Zealand, Australia and Hong Kong.

GLOBAL COMMODITIES MARKET

Overview

According to the RBA bulletin published in September 2012, the crude oil market is significantly larger than that for any other commodity, both in terms of physical production and financial market activity. The value of crude oil production is more than twice that of coal and natural gas, 10 times that of iron ore and almost 20 times that of copper. Crude oil is the most widely used source of fuel, supplying around one-third of the world's energy needs. The table below sets out the physical and financial market size of major commodities for the year 2011.

INDUSTRY OVERVIEW

Physical and financial market size of major commodities (US\$'billion)

	Physical market ^(Note 1)		Financial market (exchange-traded)	
	Annual production	Annual exports	Annual turnover	Open interest ^(Note 2)
Oil	3,250	2,211	40,194	288
Natural gas	1,578	530	3,160	38
Coal	1,203	187	40	3
Iron ore	318	164	8 ^(Note 3)	1 ^(Note 3)
Rice ^(Note 4)	285	22	58	1
Corn ^(Note 4)	245	27	2,865	48
Wheat ^(Note 4)	200	43	1,257	27
Copper	173	51 ^(Note 5)	13,726	93
Gold	139	156 ^(Note 5)	9,362	85
Soybeans ^(Note 4)	119	45	6,540	70
Sugar ^(Note 4)	93	32	3,614	28

Notes:

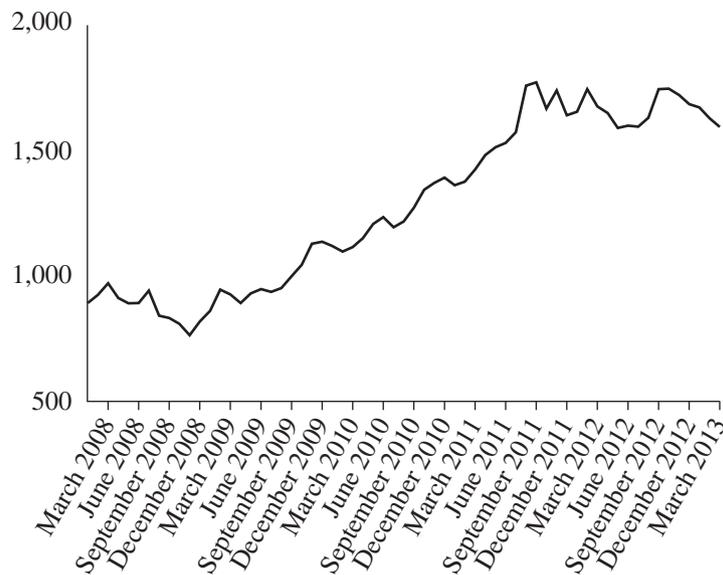
1. *The RBA estimates based on volumes and indicative world prices.*
2. *Open interest is the total dollar value of futures and options contracts outstanding which are held by market participants at the end of each month; averaged over the year.*
3. *Includes exchange-traded swaps.*
4. *Physical market data are for the 2011/2012 US financial year.*
5. *Export data are for year 2010.*

Source: RBA

INDUSTRY OVERVIEW

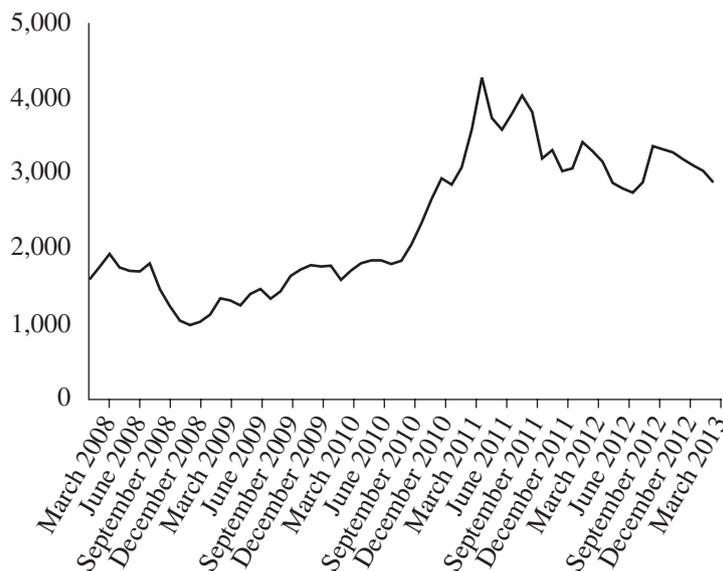
According to the Commodity Markets Review published by the World Bank in June 2012, the prices for gold, silver and crude oil being the three products offered by our Group for trading, has shown a steady increase in the past five years, implying that the global demand for these commodities are also on a rising trend. With the expectation on rising demand and prices for commodities, trading activity in commodities is also expected to increase.

Gold (US\$/troy oz.)



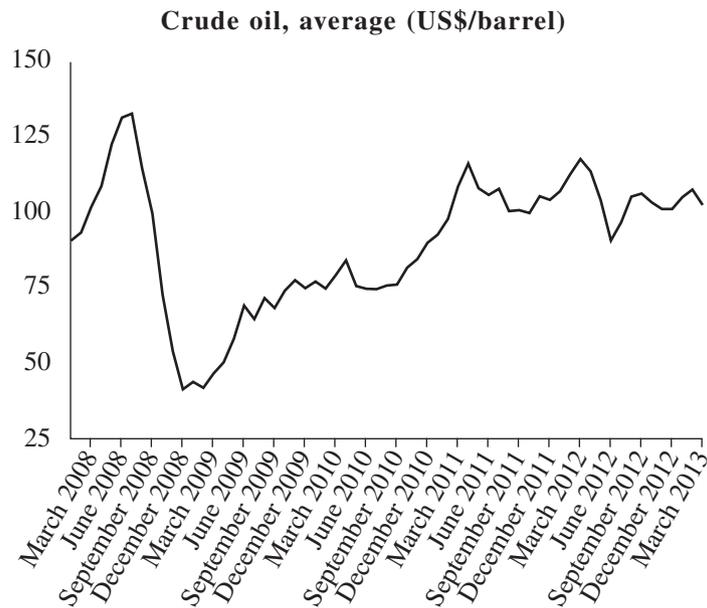
Source: The World Bank

Silver (US cents/troy oz.)



Source: The World Bank

INDUSTRY OVERVIEW



Source: The World Bank

Drivers of commodities demand and prices

The KPMG Bulletin lists the following as the major reasons for investors to favour gold as an investment.

- Gold as an asset class, does not have any credit risk. This is common across holding any of the commodities in physical form as there is no counterparty involved.
- It is durable and there is no depreciation in the value (except for any storage costs).
- As compared to other commodities, it has high value to volume ratio and it has a market which has high liquidity.
- Another important characteristic is the fact that it is traded throughout the world having a legacy of a monetary commodity and accepted as ultimate store of value.

Economic factors

Further, according to the KPMG Bulletin, recent economic events such as the US credit rating downgrade and the European debt crisis supported the upward growth in gold prices. In August 2011, gold prices increased amid fears that Standard & Poor's downgrade of its US credit rating will have a negative impact on USD and slow the growth of the global economy. Sustained concerns surrounding the European debt crisis continue to provide an upward support to gold prices as investors are looking for safer haven for investments, which is available in the form of gold.

According to the KPMG Bulletin, other factors which contributed to the rising prices and demand for gold also included the following:

INDUSTRY OVERVIEW

Negative real interest rates

Not only the developed countries like the US, but also countries like the PRC and India are facing the issue of negative interest rates. The situation in the latter countries is due to the high inflation rate present in the economies for a considerable period of time. This has also acted as a support to the rise in prices of gold.

Central banks

Traditionally seen as net supplier of gold in the world market, central banks, for the quarter ending September 2011, around the world remained the net purchaser of gold amounting to approximately 148.4 tonnes as most of them sought to increase the proportion of gold in their reserves. Thailand's central bank purchased approximately 25 tonnes, Russian bank approximately 15 tonnes (buying gold since April 2007) and Bolivian bank approximately 14 tonnes of gold in the quarter. This compares to approximately 76 tonnes over the whole year 2010.

Commodities prices are also in part driven by political factors. The BIS Quarterly Review published in March 2011 noted that concerns about the impact of political unrest in North Africa and the Middle East have led to spikes in the oil prices stemming from concerns which political unrest in such major oil producer regions will affect global oil production and supplies. Notably, the deteriorating political situation in Libya during 2011 led to more than half of the country's oil production being halted resulting in sizeable jumps in oil spot and futures prices, with spot prices reaching levels not seen for the past two years. Further, rise in energy and metal prices also seem to be driven by longer-run demand pressures stemming from expectations in general global growth.

TRENDS IN MARKET VOLATILITY

Forex

According to the Joint Report, trading volume in the overall forex industry in 2010 to 2011 shrank as compared to the 2008 to 2009 levels, which was primarily due to the new regulatory-mandated leverage restrictions in the US and Japan (being leading markets in the forex industry) and a lower volatility as compared to the two years which followed the financial crisis in 2008. As indicated by the forex volatility index compiled by DB for the forex market which constitutes nine currency pairs (i.e. EUR/USD, USD/JPY, GBP/USD, USD/CHF, CAD/USD, AUD/USD, EUR/JPY, EUR/GBP and EUR/CHF), volatility in the forex market was relatively stable save for the period between 2008 and 2009 and has slowed down considerably since then. Between 2008 and up to the first quarter of 2013, the forex market was at its most volatile on 27 October 2008 at approximately 24.2 points and at its lowest on 17 December 2012 at approximately 7.0 points. The average volatility of the forex market was approximately 12.1 points and 9.2 points during the two years ended 31 December 2011 and 31 December 2012, respectively. The forex market started out relatively calm in the year 2013, with an average of approximately 8.2 points in the first month and gradually picked up near the end of the first quarter at an average of approximately 9.2 points in March.

INDUSTRY OVERVIEW

Forex volatility index between 2008 and the first quarter of 2013



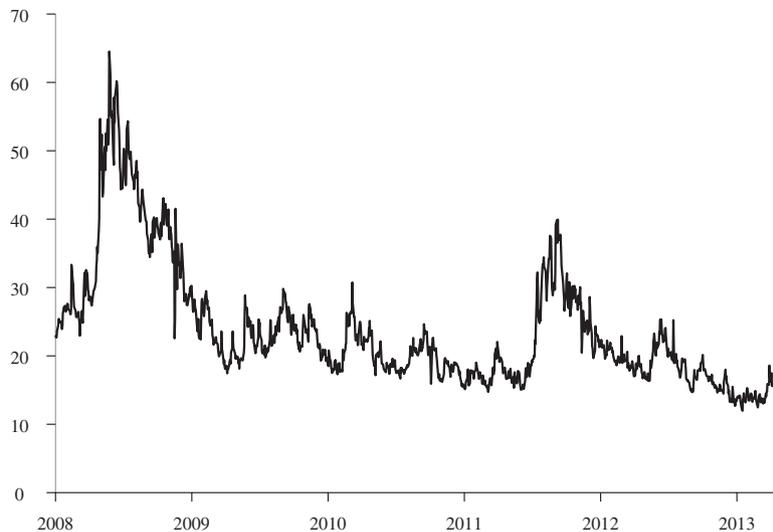
Source: DB

Commodities

Gold

As indicated by the CBOE volatility index for gold, which started in June 2008, the gold market exhibited periods of high volatility around 2008 to 2009 and another relatively more volatile period in 2011. Volatility in the gold market reached its highest on 10 October 2008 at approximately 64.5 points and its lowest on 17 December 2012 at approximately 12.0 points. During the two years ended 31 December 2011 and 31 December 2012 and the first quarter of 2013, the average of the index was approximately 22.2 points, 18.2 points and 14.1 points, respectively. The gold market was relatively calm in 2012 compared to 2011.

Gold volatility index between 2008 and the first quarter of 2013



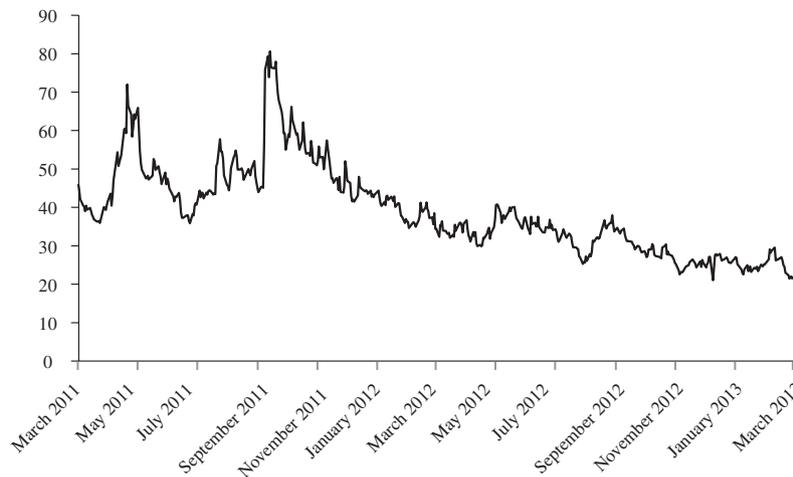
Source: CBOE

INDUSTRY OVERVIEW

Silver

The silver market in 2012 was similarly less volatile than 2011 as with the gold market. The silver market was at its most volatile on 28 September 2011 reaching approximately 80.6 points at closing and decreased to a low of approximately 20.9 points on 28 March 2013. The average of the index from March 2011 (being the date on which the index started) to December 2011 was approximately 50.1 points while the average of the year ended 31 December 2012 and the first quarter of 2013 was approximately 33.5 points and 24.9 points, respectively, representing an overall drop of approximately 50.3%.

Silver volatility index between March 2011 and the first quarter of 2013



Source: CBOE

Crude oil

As indicated by the CBOE volatility index for crude oil over the past five years, the volatility of crude oil has decreased considerably since the 2008 to 2009 era as with the gold market, where it reached its most volatile at approximately 100.4 points on 11 December 2008 and its lowest at approximately 17.8 points on 26 March 2013, representing a difference of over five-fold. The average of the crude oil index for the two years ended 31 December 2011 and 31 December 2012 and the first quarter of 2013 was approximately 39.1 points, 32.2 points and 22.5 points, respectively.

Crude oil volatility index between 2008 and the first quarter of 2013



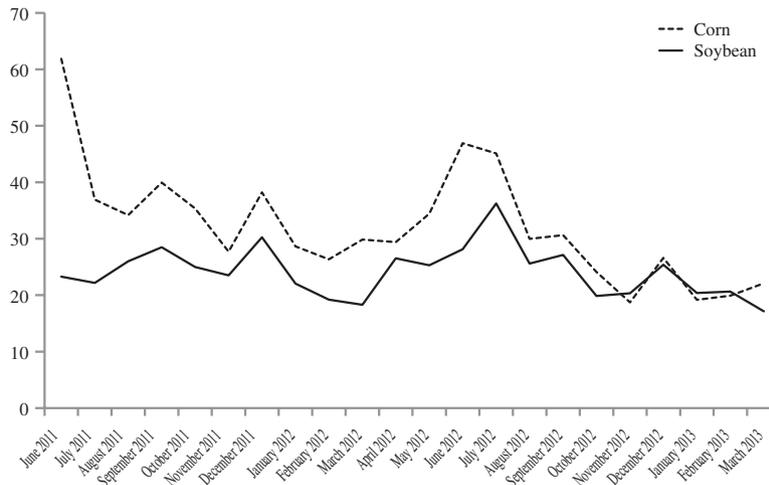
Source: CBOE

INDUSTRY OVERVIEW

Agricultural products (corn and soybean)

According to the CBOE volatility indices for corn and soybeans, both of which started in June 2011, the market volatility for these two agricultural commodities has become more stable over the years. The monthly average for the corn market was approximately 39.2 points, 30.9 points and 20.4 points during the two years ended 31 December 2011 and 31 December 2012 and the first quarter of 2013, respectively, while the monthly average of the soybean market over the same periods were approximately 25.5 points, 24.5 points and 19.4 points, respectively.

Corn and soybean volatility indices between June 2011 and the first quarter of 2013



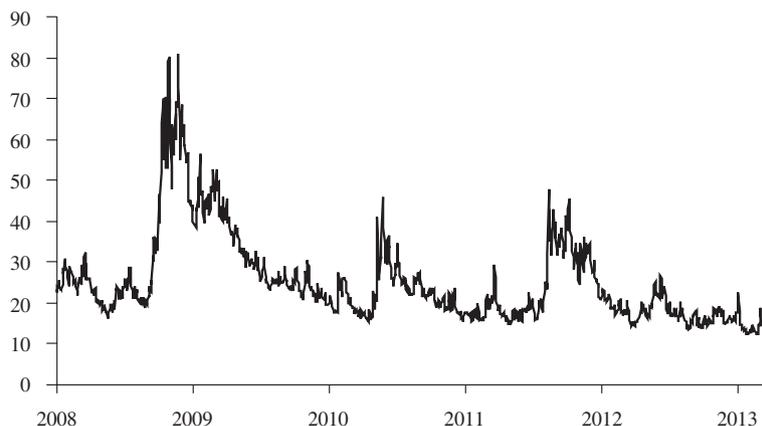
Source: CBOE

Stock market

The stock market had seen two bouts of volatility in the past five years, one being in 2008 due to the financial crisis and more recently in 2011 due to the string of political upheavals, natural disasters, the European debt crisis and the US credit rating downgrade. According to the CBOE volatility index for stock market, being a popular measure of implied volatility in the stock market and an indicator of market sentiment, volatility in the stock market reached a five-year high on 20 November 2008 closing at approximately 80.9 points and reached its lowest on 15 March 2013 closing at approximately 11.3 points, representing an approximate change of 86.0%. The market had been relatively calm during the year ended 31 December 2012, which had a daily average of approximately 17.8 points with a low of approximately 13.5 points and reaching a high of approximately 26.7 points, representing a two-fold difference, while in 2011, a year of marked volatility, the CBOE volatility index for stock market had a daily average of approximately 24.2 points, once dropping to a low of approximately 14.6 points and increasing to a high of approximately 48.0 points, representing a three-fold difference. The stock market remained calm entering into the year 2013. At the close of the first quarter of 2013, the index averaged around 13.5 points, at its lowest at approximately 11.3 points and highest at approximately 19.0 points, representing a difference of less than two-fold.

INDUSTRY OVERVIEW

Stock market volatility index between 2008 and the first quarter of 2013



Source: CBOE

NEW ZEALAND FOREX MARKET

Overview

According to the bulletin published by the RBNZ in December 2010 (the “**RBNZ Bulletin**”), the 2004 to 2007 period saw an increase in investor risk appetite and an increase of investment in NZD as traders showed a strong preference for higher-yielding currencies. Offshore investors also favoured the carry trade as well as NZD-denominated bonds. Trading in these markets subsequently declined during the financial crisis in 2008 as increased volatility and declining New Zealand interest rates reduced their appeal.

NZD levels

According to the RBNZ Bulletin, NZD depreciated from the start of 2008 in terms of levels, falling over 15% on a trade weighted index (“**TWI**”) basis. NZD continued to decline until March 2009 when the financial markets reached a turning point. USD strengthened as global investors flocked to the safe haven currency and the US investors repatriated their assets back into their home currency. Overall, however, NZD is at similar levels, both against USD and on a TWI basis, to those seen in April 2007 when the 2010 Survey was completed.

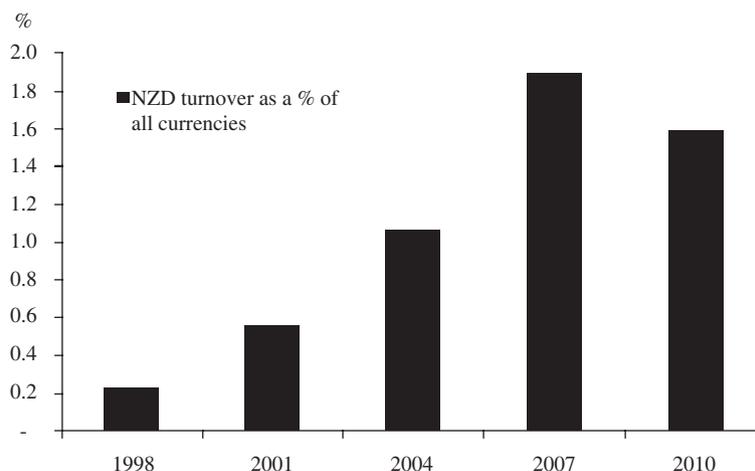
NZD turnover

Total market turnover in the NZD forex market has declined from a percentage share of around 1.9% of total market volume in 2007 down to around 1.6% in 2010. On the whole, the level of trading in NZD has increased marginally.

The graph below shows the percentage of average daily turnover in NZD in 1998, 2001, 2004, 2007 and 2010:

INDUSTRY OVERVIEW

Percentage of average daily turnover in NZD



Source: BIS

As stated in the RBNZ Bulletin, NZD has historically been a high-yielding currency with comparatively high interest rates compared to other developed economies. While the carry trade was popular prior to the financial crisis, there has been little evidence of the carry trade returning to anywhere near the same volumes as before the financial crisis. This was one of the factors driving the decline in turnover in NZD in 2010 as revealed by the 2010 Survey.

The increased level of volatility in markets since the start of the financial crisis has also driven demand for safe haven currencies such as USD and JPY. NZD has received less attention from traders since the start of the financial crisis, particularly as other commodity-linked countries, such as Australia, began to raise official policy interest rates, attracting investment into AUD rather than back into NZD, where the Official Cash Rate remained on hold for a longer period of time.

While the level of interest in trading NZD as a percentage of global forex trades has declined, the level of spot trading in NZD has increased steadily since 1998. The aggregate global turnover data according to the 2010 Survey conducted by the BIS shows that, over the three years between 2007 and 2010, the amount of spot forex transactions has continued to grow, albeit at a slower pace. However, the overall level of derivatives traded in the NZD markets has fallen in recent years, possibly related to the reduced interest in carry trades.

The exception to this has been an increase in the turnover of currency swaps, which have risen by around 40%. This adds to a sizeable increase of 370% between 2004 and 2007. As stated in the RBNZ Bulletin, such increase was probably due to a large-scale increase in offshore issuance of Uridashi, Eurokiwi and Kauri bonds, the proceeds of which would then have been swapped back into the local currency.

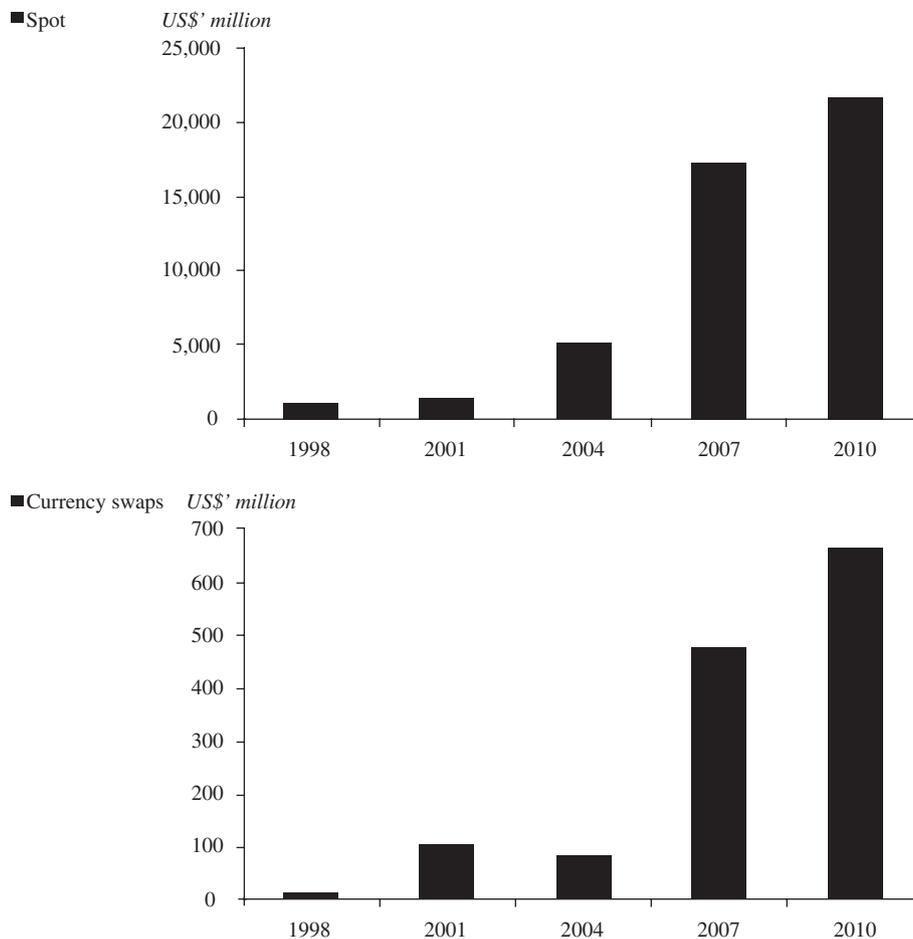
Recently, issuance of these NZD offshore bonds has been subdued. According to the RBNZ Bulletin, the increase in currency swaps between 2007 and 2010 may be due to an increase in the term of bank funding as banks act to lock in longer-term financing. The cash raised in offshore markets is then likely to have been swapped back into NZDs via currency swaps. There may also be a timing issue, as in April 2010 when the 2010 Survey was conducted, local banks were relatively active in trying to raise longer-term funding, more so than they may have been between 2007 and 2009.

INDUSTRY OVERVIEW

The currency swap market is a very small percentage of total trading in NZDs, which accounts for less than 1%. The majority of NZD trading is conducted in the forex swap market, which involves swapping the principal amount of the trade at both the initiation and conclusion of the trade. The volume of NZD forex swaps declined by around 5% between 2007 and 2010 as the attractiveness of NZD trades based on interest rate differentials diminished, with interest rates in other developed economies rising above those offered in New Zealand. The preference for banks to issue longer-term funding has also seen a switch in turnover from rolling over a large volume of short-term forex swaps, moving into the currency swap market instead.

The graphs below illustrate the turnover of spot transactions in NZD and turnover of the currency swap market in NZD in 1998, 2001, 2004, 2007 and 2010:

Turnover of spot transactions in NZD and turnover of the currency swap market in NZD



Sources: BIS and RBNZ

INDUSTRY OVERVIEW

NZD carry trading remains subdued

According to the RBNZ Bulletin, interest in NZD as a margin trade instrument appears to have substantially dissipated, a factor which is likely adding to a lack of liquidity in the NZD market.

Historically, New Zealand has had relatively elevated levels of interest rates even compared to other high-yielding countries such as Australia. This attracted considerable inflows of capital in the lead-up to the financial crisis and made the carry trade very attractive. Since early 2008, New Zealand interest rates have fallen below those in Australia, a phenomenon not seen since the end of 1995. Since 2000, the interest rate spread between New Zealand and the US has also widened, reaching a peak of almost 500 basis points prior to the start of the financial crisis. This widening encouraged investors to buy NZDs and take advantage of the attractive rates of return offered in New Zealand.

It is noted in the RBNZ Bulletin that with interest rates in Australia and other commodity-linked currencies, such as the Brazilian real, now relatively more attractive compared to interest rates in New Zealand, the carry trades which are still being undertaken have tended to focus on these economies rather than in New Zealand. This may have contributed to the decrease in forex turnover in the NZD market, with the percentage share of NZD trades falling from approximately 1.9% in 2007 to approximately 1.6% in 2010.

Liquidity in the NZD market

Based on the RBNZ Bulletin, liquidity in the NZD market became very thin during the financial crisis in 2008, which caused a sharp widening in the quoted bid/offer spreads. While the bid/offer spread has narrowed again, the spread remains slightly elevated compared to post-crisis levels and NZD spread remains above those in other major currencies. In an environment of increased volatility, this may remain a disincentive for some investors trading NZD.

AUSTRALIAN FOREX MARKET

Turnover in the Australian forex market

According to the bulletin published by the RBA in December 2010 (the “**RBA Bulletin 2010**”), many of the global trends revealed in the 2010 Survey have also been at play in the Australian forex market between 2007 and 2010. Growth in aggregate turnover in the Australian forex market slowed relative to the previous three-year period; turnover increased by approximately 12% between 2007 and 2010 compared with the growth of approximately 60% between 2004 and 2007. Growth was driven by spot turnover, which increased by approximately 35% between 2007 and 2010, while growth in turnover of forex swaps slowed from approximately 76% between 2004 and 2007 to approximately 10% between 2007 and 2010.

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The following table sets out the Australian forex turnover between 2004 and 2010:

Australian forex turnover

	Change over 2004 to 2007 %	Change over 2007 to 2010 %	Daily average in April 2010 US\$' billion
Total	60	12	192
Instrument			
Spot transactions	25	35	60
Outright forwards	123	(35)	8
Forex swaps	76	10	118
Cross-currency swaps	100	83	4
Over-the-counter options	24	(60)	2
Reporting dealers	N/A	16	118
Other financial institutions	N/A	10	61
Non-financial institutions	N/A	(6)	13
Currencies			
USD/EUR	38	60	38
USD/JPY	1	39	19
USD/GBP	N/A	41	14
USD/AUD	66	(2)	75
Other crosses <i>(Note)</i>	54	(1)	46

Note: Other crosses include USD/GBP in 2004.

Source: RBA

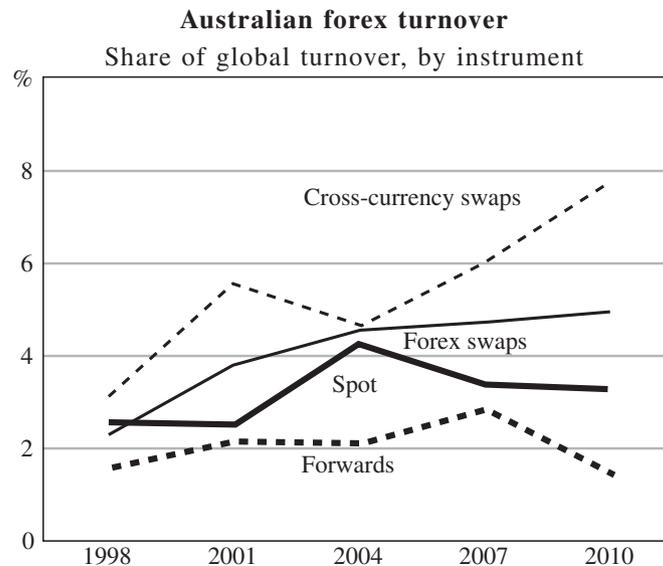
Comparison between the Australian forex market and the global forex market

It is stated in the RBA Bulletin 2010 that there are several developments in the Australian forex market different from those seen at the global level. The first is that the primary driver of growth was the turnover between dealers, which increased by approximately 16% between 2007 and 2010. Forex turnover with other financial institutions grew by a relatively modest 10% between 2007 and 2010 and, as was the case at the global level, turnover with non-financial institutions fell. Within the non-financial institution segment, the fall is accounted for by lower turnover of both forwards and forex swaps; spot turnover for this segment increased strongly, in line with the continued strong growth in Australian cross-border trade over the same period. Second, growth in spot turnover was slower than the world as a whole, with Australia's share of global spot turnover falling. One potential factor contributing to slower growth is that much of the turnover generated by high-frequency trading is likely to occur in New York or London as the systems executing the trades need to be located close to the electronic systems of market makers to minimise execution delays, in the same way that high-frequency equity trading systems are set up as close as possible to stock exchanges. The strong growth in high-frequency trading is therefore unlikely to be proportionately distributed across existing financial centres. Third, growth in cross-currency swaps was considerably stronger in Australia than at the

INDUSTRY OVERVIEW

global level. Turnover in Australia now accounts for around 8% of global turnover in cross-currency swaps, up from around 6% in April 2007, which is considerably higher than its share of turnover for other instruments. Both the level and the trend are related to the use of foreign currency borrowing by Australian banks. When issuing long-term foreign currency debt, Australian financial institutions use cross-currency swaps to exchange the proceeds back into AUD and to hedge the exchange rate risk on their debt repayments. Australian banks hedge close to all of their foreign currency debt liabilities using derivatives (as well as over one-half of their foreign currency debt assets). In 2009 and early 2010, Australian banks lengthened the maturity of their balance sheets and issued AUD28 billion of bonds, around 60% more than what was issued in early 2007. With issuance by banks in the rest of the world remaining subdued, this lifted Australia's share of global bond issuance and extended Australia's share of cross-currency swap turnover.

The graph below illustrates the share of Australian forex turnover in the global forex turnover by instrument in 1998, 2001, 2004, 2007 and 2010:



Sources: BIS and RBA

Forex swaps

The 2010 Survey showed that the share of forex swaps continues to be high in the Australian forex market compared with that for the world as a whole. There are a number of factors which contribute to this. First, the Australian financial industry has a relatively large pension fund and insurance sector, which uses forex swaps to hedge the forex risk on its sizeable overseas asset portfolios. These hedges are typically rebalanced monthly or quarterly. Second, offshore bond issuance by domestic banks can also generate turnover in forex swaps. Although an Australian bank hedges the forex risk from foreign currency bond issuance using a cross-currency swap with another bank, this intermediating bank then either squares their position against an offsetting cross-currency swap with another client (such as an issuer of Kangaroo bonds) or hedges it by using a stream of forex swaps of shorter maturity. Lastly, AUD remains a popular currency for carry trades and investors employing this strategy typically roll their open carry positions using forex swaps.

INDUSTRY OVERVIEW

HONG KONG FOREX MARKET

Overview

According to the bulletin published by the HKMA in September 2010 (the “**HKMA Bulletin**”), the Hong Kong forex market is broadly in line with global trends. The 2010 Survey showed that the average daily net turnover of the Hong Kong forex and over-the-counter derivatives markets grew 29.1% from approximately US\$198.2 billion in 2007 to approximately US\$256.0 billion in 2010. Total turnover rose across major instruments, particularly in outright forwards and forex swaps.

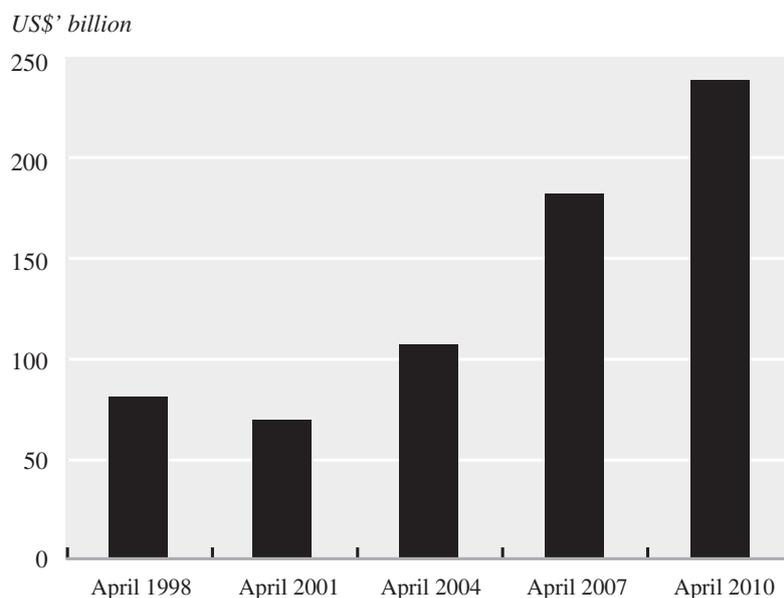
With a global market share of approximately 4.7%, the average daily net turnover (net of double counting of trades between local reporting dealers) of the forex market in Hong Kong was approximately US\$237.6 billion in April 2010, up approximately 31.3% from approximately US\$181.0 billion per day in April 2007. Forex swaps remained the principal type of forex transactions, with turnover increasing by approximately 20.5% to approximately US\$147.0 billion per day in April 2010, accounting for approximately 62% of the total forex market turnover.

Total turnover

As stated in the HKMA Bulletin, the average daily net turnover in the Hong Kong forex market showed an increase of approximately 31.3% from approximately US\$181.0 billion in 2007 to approximately US\$237.6 billion in 2010. The growth in forex turnover is stronger than the corresponding global growth of approximately 20% as reported in the 2010 Survey.

The graph below shows the average daily net turnover of the Hong Kong forex market in April 1998, 2001, 2004, 2007 and 2010:

Average daily net turnover of the Hong Kong forex market *(Note)*



Note: Average daily net turnover has been adjusted for local inter-dealer double-counting (i.e. “net-net” basis).

Sources: BIS and HKMA

INDUSTRY OVERVIEW

Instruments

According to the HKMA Bulletin, the total turnover rose across major instruments, particularly in outright forwards and forex swaps. From 2007 to 2010, the average daily net turnover of outright forwards increased by approximately 117.6% to approximately US\$32.0 billion, while that of forex swaps increased by approximately 20.5% to approximately US\$147.0 billion. Forex swaps remained the largest component among all forex instruments, although their share contracted from approximately 67% in 2007 to approximately 62% in 2010. On the other hand, the share of outright forwards increased from approximately 8% in 2007 to approximately 13% in 2010. Strong growth was observed in currency swaps turnover, which grew approximately ten-fold since 2007, comprising approximately 3% of total forex turnover as compared to only approximately 0.3% in 2007. In comparison, forex spot market turnover increased only modestly by approximately 15.5% over the corresponding period, with their share of total forex turnover declining from approximately 21% in 2007 to approximately 18% in 2010.

The table below illustrates the average daily net turnover of the Hong Kong forex market by instrument in April 2007 and April 2010:

Average daily net turnover of the Hong Kong forex market (by instrument) ^(Notes)
US\$' billion

	Turnover in Hong Kong			Global turnover		
	April 2010	April 2007	Change (%)	April 2010	April 2007	Change (%)
Spot transactions	43.8	37.9	15.5	1,490	1,005	48.3
Outright forwards	32.0	14.7	117.6	475	362	31.3
Forex swaps	147.0	122.0	20.5	1,765	1,714	3.0
Currency swaps	7.0	0.6	1,025.5	43	31	36.1
Over-the-counter options and other over-the-counter products	7.7	5.7	34.6	207	212	(2.0)
Total forex transactions	237.6	181.0	31.3	3,981	3,324	19.8

Notes:

1. *Average daily net turnover has been adjusted for local inter-dealer double-counting (i.e. "net-net" basis).*
2. *Figures may not add up to total due to rounding.*
3. *Other over-the-counter products are recorded on a gross basis (i.e. not adjusted for inter-dealer double-counting).*

Sources: BIS and HKMA

INDUSTRY OVERVIEW

Currency composition

Based on the HKMA Bulletin, USD continued to be the most heavily traded currency in the Hong Kong forex market, being used on one side of approximately 95.6% of all transactions in April 2010. HKD-denominated contracts shrank, with approximately 30.6% of the total involving HKD on one side of the transaction. In contrast, trading in EUR, JPY and AUD rose strongly.

With the increase in cross-boundary trade with China and demand for RMB, daily net turnover in forex instruments denominated in RMB increased more than three-fold from approximately US\$3.1 billion in 2007 to approximately US\$10.9 billion in 2010. The share of RMB increased from approximately 1.7% of the total forex turnover in 2007 to approximately 4.6% in 2010. Notable growth was observed in outright forward transactions, which grew by approximately 198.5% to US\$7.8 billion and accounted for approximately 71.5% of total RMB-related turnover in forex instruments in 2010. Net turnover of RMB spot transactions amounted to approximately US\$1.6 billion per day in 2010, up approximately 5.1 times from 2007.

HKD against USD remained the most heavily traded currency pair although its share fell from approximately 40.5% in 2007 to approximately 29.4% in 2010, mainly due to the substantial increases in other currency pair transactions. Sharp increases were observed in currency pairs involving USD against EUR, JPY, AUD and other Asian currencies. According to the HKMA Bulletin, these increases may be attributed to the strong market demand for cross-currency funding through forex swaps as well as carry-trade activities driven by the low interest-rate environment and the strength of Asian currencies.

The following table sets out the average daily net turnover of the Hong Kong forex market by currency pair in April 2007 and April 2010:

Average daily net turnover of the Hong Kong forex market (by currency pair) *(Notes)*
US\$' billion

	April 2010	Average daily net turnover		Change	
		Share (%)	April 2007		Share (%)
HKD against:					
USD	69.8	29.4	73.2	40.5	(4.6)
Others	2.8	1.2	1.0	0.5	192.0
of which: EUR	1.3	0.5	n.c.	N/A	N/A
JPY	0.2	0.1	n.c.	N/A	N/A
GBP	0.3	0.1	n.c.	N/A	N/A
AUD	0.5	0.2	n.c.	N/A	N/A
CAD	0.1	0.0	n.c.	N/A	N/A
RMB	0.1	0.1	n.c.	N/A	N/A
Others	0.2	0.1	n.c.	N/A	N/A
Sub-total	72.6	30.6	74.2	41.0	(2.1)

INDUSTRY OVERVIEW

	April 2010	Average daily net turnover			Change (%)
		Share (%)	April 2007	Share (%)	
USD against:					
EUR	33.1	13.9	20.9	11.5	58.9
JPY	27.1	11.4	16.9	9.3	60.8
CHF	2.4	1.0	2.9	1.6	(18.2)
GBP	10.0	4.2	13.5	7.5	(25.9)
AUD	24.6	10.4	14.6	8.1	68.9
CAD	3.2	1.4	2.2	1.2	49.0
Malaysian ringgit	3.1	1.3	0.6	0.3	438.9
Others (excluding HKD)	53.6	22.6	27.7	15.3	93.6
of which: RMB	10.7	4.5	n.c.	N/A	N/A
Indian rupee	4.6	1.9	n.c.	N/A	N/A
Korean won	7.4	3.1	n.c.	N/A	N/A
Others	31.0	13.0	n.c.	N/A	N/A
Sub-total	157.2	66.2	99.2	54.8	58.5
Cross currencies (excluding HKD and USD):					
EUR/JPY	2.0	0.9	2.0	1.1	2.1
EUR/GBP	0.9	0.4	0.4	0.2	112.1
Others	4.8	2.0	5.2	2.9	(7.4)
of which: EUR/other currencies	1.1	0.4	n.c.	N/A	N/A
JPY/AUD	0.9	0.4	n.c.	N/A	N/A
JPY/NZD	0.1	0.0	n.c.	N/A	N/A
JPY/other currencies	0.6	0.3	n.c.	N/A	N/A
Others	2.1	0.9	n.c.	N/A	N/A
Sub-total	7.7	3.2	7.6	4.2	1.6
All currency pairs	237.5	100	181.0	100	31.3
Other over-the-counter products	0.03		0.00		
Total forex transactions	237.6		181.0		31.3

Notes:

1. Average daily net turnover has been adjusted for local inter-dealer double-counting (i.e. "net-net" basis).
2. Other over-the-counter products are recorded on a gross basis (i.e. not adjusted for inter-dealer double-counting).
3. Figures may not add up to total due to rounding.
4. n.c. denotes not collected.

Sources: BIS and HKMA

INDUSTRY OVERVIEW

Counterparty

From the HKMA Bulletin, reporting dealers continued to be the largest group contributing to the Hong Kong forex turnover, representing approximately 75.7% in 2010 as revealed by the 2010 Survey, although the percentage was slightly lower than approximately 77.3% recorded in 2007. Business with “other financial institutions” and “non-financial clients” accounted for approximately 18.8% and approximately 5.5% of the turnover, respectively. On a global basis, the market share of forex turnover is distributed more evenly, with reporting dealers and other financial institutions accounting for approximately 39% and approximately 48%, respectively. The significantly higher concentration of inter-dealer forex activity as reported by reporting dealers located in Hong Kong suggests that, in addition to being a centre for forex trading, Hong Kong is an important funding centre where dealers can manage the currency mismatches of their balance sheets through forex swaps.

The HKMA Bulletin also states that the value of Hong Kong forex turnover with all types of counterparties grew between 2007 and 2010, except trades with other local financial institutions. Reflecting the cross-border nature of forex transactions, approximately 87% of the forex turnover was transacted with cross-border counterparties, greater than the approximately 84% recorded in 2007. Concentration in the Hong Kong forex market has decreased. The combined market share of the top 10 reporting dealers with the largest gross forex turnover declined from approximately 70.6% in 2007 to approximately 64.5% in 2010.

The table below shows the average daily net turnover of the Hong Kong forex market by counterparty in April 2007 and April 2010:

Average daily net turnover of the Hong Kong forex market (by counterparty)

US\$' billion

	Average daily net turnover ^(Note 1)			Share (%)	
	April 2010	April 2007	Change (%)	April 2010	April 2007
With reporting dealer ^(Note 2)	179.8	139.8	28.6	75.7	77.3
Local	19.8	17.7	11.8	8.3	9.8
Cross border	160.0	122.1	31.1	67.4	67.5
With other financial institutions ^(Note 3)	44.6	29.5	50.9	18.8	16.3
Local	4.4	5.8	(24.3)	1.8	3.2
Cross border	40.2	23.8	69.1	16.9	13.1
With non-financial clients ^(Note 4)	13.1	11.6	13.0	5.5	6.4
Local	6.6	5.8	13.4	2.8	3.2
Cross border	6.5	5.8	12.5	2.7	3.2
Sub-total	237.5	181.0	31.3	100	100
Other over-the-counter products ^(Note 5)	0.03	0.00	N/A		
Total forex transactions	237.6	181.0	31.3		

INDUSTRY OVERVIEW

Notes:

1. *Average daily net turnover has been adjusted for local inter-dealer double-counting (i.e. “net-net” basis).*
2. *Reporting dealers refer to authorised institutions and major securities houses participating in the 2007 and 2010 surveys.*
3. *Other financial institutions refer to financial institutions other than reporting dealers. Thus, they mainly cover all other financial institutions, such as smaller commercial banks, investment banks and securities houses, and in addition mutual funds, pension funds, hedge funds, currency funds, money market funds, building societies, leasing companies, insurance companies, financial subsidiaries of corporate firms and central banks.*
4. *Non-financial clients mainly refer to non-financial end users, such as corporations and governments.*
5. *Other over-the-counter products are recorded on a gross basis (i.e. not adjusted for inter-dealer double-counting).*
6. *Figures may not add up to total due to rounding.*

Sources: BIS and HKMA

REGULATORY OVERVIEW

This section provides a brief summary of some of the key areas of the laws, rules and regulations in New Zealand, Australia and Hong Kong which are relevant to our activities. Prospective investors should not place undue reliance on the statements in this section. You should consult your own advisers about the legislation referred to in this section.

NEW ZEALAND REGULATORY OVERVIEW

The following constitutes only a very general overview of the legislation which may be relevant to the business conducted by our Group in New Zealand.

Financial services legislation

Securities Act 1978

The Securities Act 1978 (the “**Securities Act**”) applies where there is an offer of securities “to the public” in New Zealand, regardless of where any allotment occurs, or where the issuer is resident, incorporated, or carries on business.

A “**security**” is any interest or right to participate in any capital, assets, earnings, royalties, or other property of any person and includes:

- (a) an equity security;
- (b) a debt security;
- (c) a unit in a unit trust;
- (d) an interest in a superannuation scheme;
- (e) a life insurance policy;
- (f) any interest or right which is declared by regulations to be a security; and
- (g) any renewal or variation of the terms or conditions of any such interest or right.

If the Securities Act applies, the issuer may be required to register a prospectus, provide investors with an “investment statement” (a simplified disclosure document), and, for some offers, appoint a trustee or statutory supervisor. There are also rules concerning advertisements for offers covered under the Securities Act. A large number of exemptions exist both in the Securities Act and in exemption notices issued by the FMA.

Importantly, the Securities Act (Authorised Futures Contracts) Exemption Notice 2002 exempts persons who deal in authorised futures contracts from key requirements of the Securities Act in respect of those contracts, meaning that a prospectus, investment statement and trustee or statutory supervisor are not required in such circumstances.

REGULATORY OVERVIEW

Securities Markets Act 1988

The Securities Markets Act 1988 (the “**Securities Markets Act**”) regulates:

- (a) dealing misconduct;
- (b) disclosure;
- (c) securities exchanges; and
- (d) dealings in futures contracts.

Provisions in the Securities Markets Act applicable to futures contracts

The Securities Markets Act provides that no person shall carry on the business of “dealing in futures contracts” unless that person is, or is a member of, a class of persons which is, authorised to do so by the FMA. “Futures contracts” is broadly defined. In particular, “dealing” in futures contracts includes “advising”.

Futures dealers may be authorised by NZX as market participants or directly by the FMA.

Historical authorisations from the Securities Commission of New Zealand continue in effect notwithstanding the disestablishment of the Securities Commission of New Zealand.

Authorised futures dealers must comply with the Futures Industry (Client Funds) Regulations 1990. In broad terms, these Regulations restrict the manner in which clients funds, bank accounts and property must be held.

KVB NZ is authorised to deal in futures generally pursuant to the Authorised Futures Dealers Notice (No. 3) 2005 (as amended), which is subject to the conditions set out in the notice.

Provisions in the Securities Markets Act in relation to dealing misconduct

The Securities Markets Act contains prohibitions on conduct which harms the integrity of the New Zealand securities markets, such as insider trading, market manipulation and misleading and deceptive conduct generally.

Financial Service Providers (Registration and Dispute Resolution) Act 2008

The Financial Service Providers (Registration and Dispute Resolution) Act 2008 (the “**FSPA**”) requires “financial service providers” (as defined in the FSPA) to register with the Companies Office on the online Register of Financial Service Providers, and those who provide “financial services” to “retail clients” in New Zealand to sign up to an approved dispute resolution scheme.

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The following is a summary of the relevant parts of the definition of “**financial service**” in relation to KVB NZ:

- (a) a financial adviser service
- (b) a broking service
- (c) keeping, investing, administering, or managing money, securities, or investment portfolios on behalf of another person
- (d) entering into derivative transactions, or trading in money market instruments, forex, interest rate and index instruments, transferable securities (including shares), and futures contracts on behalf of another person
- (e) providing forward forex contracts

KVB NZ is registered as a financial service provider under the FSPA (and has been since 21 September 2010).

The requirement for individual “financial advisers” to register came into effect on 1 April 2011. As at the Latest Practicable Date, four employees of KVB NZ had been registered to provide financial adviser services.

When filing their annual confirmations as financial service providers both the company and those employees who have been registered to provide financial adviser services will be required to pay a levy. The amount of the levy is determined by reference to the services each financial service provider is registered to provide.

Financial Advisers Act 2008

The Financial Advisers Act 2008 (the “**FAA**”) applies to a “financial adviser service” or a “broking service” received by a client in New Zealand, regardless of where the person providing the service is a resident, is incorporated, or carries on business.

Certain key provisions of the FAA, including conduct obligations for advisers and brokers, came into force on 1 December 2010. The remaining sections (including, in particular, the sections which prescribe who can provide a financial adviser service) came into force on 1 July 2011.

Financial Adviser

A person provides a “financial adviser service” under the FAA if he:

- (a) gives “financial advice” (i.e. makes a recommendation or gives an opinion in relation to the acquiring or disposing of (including refraining from acquiring or disposing of) a financial product);

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- (b) provides an “investment planning service” (i.e. designs or offers to design a plan for an individual which is based or purports to be based on the individual’s financial situation and investment goals, and one or more recommendations or opinions on how to realise those goals); or
- (c) provides a “discretionary investment management service” (i.e. decides which products to acquire or dispose of on behalf of a client under that client’s authority).

There are a number of different types of “financial advisers” under the FAA:

- (a) individuals who are authorised financial advisers;
- (b) individuals who are registered under the FSPA (but are not authorised financial advisers) (“**RFAs**”);
- (c) individuals who are employees or nominees of a qualifying financial entity;
- (d) entities which are registered under the FSPA; and
- (e) various exempt providers.

Different types of advisers have different obligations and rights (in terms of what kinds of advice they can give) under the FAA. Essentially, the effect of the FAA on “financial advisers” will differ depending on whether the client receiving the service is a *retail client* or a *wholesale client*, whether the product is a *category 1 product* or a *category 2 product* and whether the service is a *personalised service* or a *class service*.

In addition, a person providing a financial adviser service in the course of carrying on a business of dealing in futures contracts within the scope of an authorisation under the Securities Markets Act will not be providing a financial adviser service for the purpose of the FAA.

Financial advisers have a number of ongoing conduct obligations under the FAA which, again, differ depending on the nature of the service being provided and to whom the service is being provided. In addition to complying with the FAA, authorised financial advisers are required to comply with the “Code of Professional Conduct for Authorised Financial Advisers”.

Importantly KVB NZ will need to disclose specific information to clients in relation to any financial adviser service provided to them. Regulations have been passed prescribing the form of such disclosure and the manner in which it may be made.

KVB NZ has advised that it is in the process of having various employees qualified as authorised financial advisers and RFAs. As at the Latest Practicable Date, four employees of KVB NZ had been registered to provide financial adviser services.

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Brokers

A “broking service” is the receipt, holding, payment, or transfer of client money or client property by a person acting as an “intermediary” for a client. A person acts as an “intermediary” if the person does not receive, hold, pay, or transfer the money or property on the person’s own account.

Brokers have ongoing conduct and disclosure obligations under the FAA (which are less onerous if services are only provided to *wholesale clients*). A person providing a broking service in the course of carrying on the business of dealing in futures contracts within the scope of an authorisation under the Securities Markets Act will not be providing a broking service for the purpose of the FAA.

Personal Property Securities Act 1999

The Personal Property Securities Act 1999 (the “PPSA”) establishes a register of security interests in personal property. This provides a mechanism for determining the priority of security interests between themselves as well as between other types of interests in the same personal property.

Under the PPSA, a “security interest” is an interest in personal property which is created by a transaction that in substance secures payment or performance of an obligation, without regard to:

- (a) the form of the transaction; or
- (b) the identity of the person who has title to the collateral.

A security interest can include a title retention or assignment. There are also certain transactions which are deemed to be security interests, regardless of whether they secure payment or performance of an obligation.

Corporate legislation

New Zealand Companies Act and the Financial Reporting Act 1993

New Zealand registered companies (such as KVB NZ) are required to comply with the New Zealand Companies Act and the Financial Reporting Act 1993. The New Zealand Companies Act prescribes procedures for carrying out certain corporate actions (e.g. issuing shares, declaring dividends or amending the constitution). Further, both acts impose various annual reporting and filing requirements, these obligations include:

- (a) holding an annual meeting (or alternatively, passing a written resolution in lieu of annual meeting);
- (b) filing an annual return and other notices with the Companies Office;
- (c) preparing, and in the case of KVB NZ, registering the company’s audited financial statements with the Companies Office;

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- (d) preparing and sending an annual report to shareholders; and
- (e) maintaining certain registers (such as registers of directors and shareholders).

In addition to the statutory requirements detailed above, the shareholder and directors of the company have an over-reaching obligation to comply with the constitution of the company.

For completeness, the New Zealand Companies Act requires bodies corporate incorporated outside New Zealand to register with the New Zealand Companies Office as an “overseas company” if they commence to “carry on business” in New Zealand.

Anti-money laundering

Financial Transactions Reporting Act 1996

The Financial Transactions Reporting Act 1996 (the “FTRA”) facilitates the prevention, detection, investigation, and prosecution of money laundering and the enforcement of the Terrorism Suppression Act 2002 and the Criminal Proceeds (Recovery) Act 2009 by imposing certain obligations on financial institutions in relation to the conduct of financial transactions and the reporting of suspicious transactions. KVB NZ is a “financial institution” by virtue of providing financial services which include the transfer or exchange of funds.

Specifically, the FTRA requires financial institutions to carry out “know-your-client” type procedures for verifying the identity of the client when entering into new client relationships or when conducting occasional transactions which involve the transfer of cash above a NZD10,000 threshold. It also requires suspicious transactions to be reported to the New Zealand Police.

Following the commencement of Part 2 the AML/CFT Act, which is not yet in force, KVB NZ will no longer be considered a “financial institution” for the purpose of the FTRA. Its conduct will instead be regulated by the AML/CFT Act.

AML/CFT Act

Although some parts of the AML/CFT Act are now in force (being those sections dealing with the cross border transportation of cash and establishment of supervisory structures), the main obligations imposed on reporting entities will come into force on 30 June 2013.

The AML/CFT Act imposes a range of obligations on “reporting entities”. A reporting entity is any entity which meets the AML/CFT Act’s very broad definition of a “**financial institution**”, or which is a casino. A “financial institution” means a person who, in the ordinary course of business, carries on one or more of a range of financial activities. The activities of KVB NZ will fall within this definition.

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The following compliance obligations apply to the activities of “financial institutions”:

- (a) Detailed client due diligence (“**CDD**”) obligations which must be carried out in relation to new clients, and in some other situations.
- (b) Reporting obligations on reasonable suspicion which a transaction or proposed transaction is or may be relevant to the enforcement of specified legislation.
- (c) Detailed record keeping requirements, including information concerning all transactions and information obtained during CDD.
- (d) A requirement to develop an ongoing compliance programme and appoint a designated anti-money laundering/countering financing of terrorism compliance officer.

KVB NZ has advised in the due diligence materials that it is moving to comply with the requirements of the AML/CFT Act as they come into force.

Competition and consumer protection legislation

Fair Trading Act 1986

The Fair Trading Act 1986 prohibits people in trade from engaging in misleading and deceptive conduct. It applies to both wholesale and retail transactions.

Consumer Guarantees Act 1993

The Consumer Guarantees Act 1993 regulates the quality of goods and services acquired for personal, domestic or household use or consumption.

Privacy Act 1993

The Privacy Act 1993 regulates the collection and use of personal information. It will be relevant if KVB NZ collects personal information relating to individuals in New Zealand.

Credit Contracts and Consumer Finance Act 2003

The Credit Contracts and Consumer Finance Act 2003 (the “**CCCFA**”) imposes the information disclosure requirements for consumer credit transactions and regulates methods of interest charging, fees and payments. A credit contract is a consumer credit contract if the debtor is a natural person and enters the contract primarily for personal, domestic, or household purpose. The primary goal of the CCCFA is to ensure the protection of consumers.

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Commerce Act 1986

The Commerce Act 1986:

- (a) prohibits anti-competitive behaviour and agreements, including the taking advantage of substantial market power;
- (b) prohibits the acquisition of shares or business assets if the acquisition would have, or would be likely to have, the effect of substantially lessening competition in a market; and
- (c) governs the imposition of price control on particular goods and services.

Secret Commissions Act 1910

The Secret Commissions Act 1910 prohibits agents from receiving rewards, gifts or commissions from third parties or having pecuniary interests in contracts, unless disclosed to the agent's principal.

Others

NZX Participant Rules

The NZX Participant Rules issued by NZX apply where a person wishes to participate in the markets provided by NZX. NZX also accredits individual financial advisers within these businesses as NZX advisers or NZX associate advisers.

Under the current structure market participants are classified as one or more of the participant types listed below:

- (a) NZX trading and advising firms;
- (b) NZX advising firms;
- (c) principal book only dealer;
- (d) bank only participants;
- (e) trading participants;
- (f) NZX sponsors;
- (g) distribution and underwriting sponsors; and/or
- (h) NZX derivatives market participants (who must also comply with the NZX Derivatives Market Rules).

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KVB NZ is an NZX advising firm. The primary role of an NZX advising firm is to advise clients on any of the markets provided by NZX. However, an NZX advising firm cannot trade.

NZX advising firms have the ability to:

- (a) advise clients about securities listed on any of the markets provided by NZX;
- (b) hold client assets (although this is not compulsory); and
- (c) bring and/or underwrite and distribute new issues of securities in any of the markets provided by NZX.

The capital requirements contained in the NZX Participant Rules apply to KVB NZ. Those requirements can be found on the website of NZX (www.nzx.com/market-supervision/rules/nzx-participant-rules).

The NZX Participant Rules do not impose any restrictions on the trading leverage which KVB NZ can offer in New Zealand.

Authorised Futures Dealers Notice (No. 3) 2005 (as amended)

Pursuant to the Authorised Futures Dealers Notice (No. 3) 2005 (as amended), KVB NZ must ensure that its surplus liquid funds exceed at all times its prescribed liquid funds amount.

KVB NZ's prescribed liquid funds amount is NZD1,000,000. KVB NZ's surplus liquid funds are the aggregate of all of its liquid assets, less any risk-based reductions to its liquid assets, less its gross external liabilities.

KVB NZ's liquid assets are:

- (a) cash;
- (b) cash equivalents (as defined by NZ IAS 7);
- (c) trade receivables realisable within the next three months; and
- (d) financial assets which have a ready market, which are valued at current market prices.

In calculating KVB NZ's liquid assets, the calculation excludes:

- (a) any client funds held by the company;
- (b) the value of any asset encumbered as a security against another person's liability;
- (c) the assets of any trust of which the company is a trustee;

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- (d) loans and advances to, or amounts owing by, any related party or associate; and
- (e) any asset which directly or indirectly funds an investment in or loan to the company itself.

KVB NZ must apply the following risk-based reductions to the calculation of its liquid assets:

- (a) for a futures contract entered into where the client has not paid to the futures dealer any margin due in respect of that futures contract by the second business day following the date the liability to make that margin payment arose, a reduction of 120% on that uncollected margin;
- (b) for equity securities held or receivable by KVB NZ including short positions:
 - (i) for leading equities (meaning NZSX listed equities or equities listed on the main board of an overseas exchange):
 - (A) 10% for an equity ranked 1 to 50 in the leading index of the relevant exchange; or
 - (B) 15% for all other equities quoted on the main board; and
 - (ii) for rights, the lesser of:
 - (A) 100%, or
 - (B) 10% of the combined value of rights and application monies; and
 - (iii) for other equity securities (including partly paid shares), 100%;
- (c) for liquid assets comprising debt securities in NZD:

Security type	NZD domiciled under 1 year	NZD domiciled 1-3 years	NZD domiciled 3-5 years	NZD domiciled over 5 years
Government securities	0.5%	1.5%	3.0%	5.0%
Investment grade (non-government)	1.5%	3.5%	4.5%	7.0%
Rated non-investment grade (non-government)	4.0%	7.0%	8.5%	10.0%
Other	6.0%	8.0%	10.0%	12.5%

Note: All rated securities must carry a rating by an agency approved by the RBNZ for the purpose of section 80 of the Reserve Bank of New Zealand Act 1989.

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- (d) for liquid assets comprising debt securities in foreign currencies:

Security type	Foreign currencies under 1 year	Foreign currencies 1-3 years	Foreign currencies 3-5 years	Foreign currencies over 5 years
Government securities	0.6%	1.8%	3.6%	6.0%
Investment grade (non-government)	1.8%	4.2%	5.4%	8.4%
Rated non-investment grade (non-government)	4.8%	9.8%	10.2%	12%
Other	7.2%	9.6%	12%	15.5%

Note: All rated securities must carry a rating by an agency approved by the RBNZ for the purpose of section 80 of the Reserve Bank of New Zealand Act 1989.

KVB NZ's gross external liabilities include its current, long-term and contingent liabilities, whether or not those contingent liabilities appear on KVB NZ's statements of financial position.

In calculating KVB NZ's gross external liabilities, the calculation excludes:

- (e) any client funds held by KVB NZ; and
- (f) the liabilities of any trust of which KVB NZ is a trustee.

The Authorised Futures Dealers Notice (No. 3) 2005 (as amended) does not impose any restrictions on the trading leverage which KVB NZ can offer in New Zealand.

In addition, KVB NZ is required to comply with on-going obligations which include the following:

- (a) KVB NZ must 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 contract dealt with by KVB NZ; and
 - (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.

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- (c) KVB NZ must include within any documents which state that it has been authorised to deal in futures contracts the following statement: “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 approve the client services agreement or any disclosure documents of KVB NZ”.

Futures Contracts (KVB Kunlun New Zealand Limited Agreements) Notice 2007

The Futures Contracts (KVB Kunlun New Zealand Limited Agreements) Notice 2007 clarifies that every specified contract for difference in respect of shares, other securities, or a basket of shares or other securities which relate to a specific sector, under the terms of which it is contemplated or understood that the obligations of the parties may be satisfied other than by actual delivery of underlying securities, which is offered to persons in New Zealand by KVB NZ under a disclosure document that complies with the Authorised Futures Dealers Notice (No. 3) 2005 is declared to be an agreement to which the Securities Markets Act applies. This means it has the benefit of exemptions from the Securities Act set out in the Securities Act (Authorised Futures Contracts) Exemption Notice 2002.

Securities Transfer Act 1991

The Securities Transfer Act 1991 specifies an approved manner in which listed and unlisted securities may be transferred in New Zealand, including electronically.

Unclaimed Money Act 1971

The Unclaimed Money Act 1971 creates rules and procedures for the handling of unclaimed funds situated in New Zealand. Not all money is subject to the legislation’s provisions, and the holders of unclaimed money must abide by the regulations set forth in the act.

Repatriation of profits and capital

There are currently no restrictions under New Zealand law on the repatriation of profits or capital (although companies must comply with the procedures set out in the New Zealand Companies Act in relation to distribution (including share buybacks) including compliance with a solvency test).

Impact of recent regulatory changes on the operations of our Group

Recently implemented laws, rules and regulations in New Zealand which have impact on the operation of KVB NZ include tax laws and the AML/CFT Act. The GST in New Zealand has been increased from 12.5% to 15% from 1 October 2010 onwards. The impact of this change is minor, as confirmed by our Directors, since the majority of the expenses of KVB NZ are not GST-related. The total GST-related expense of our Group for each of the two years ended 31 December 2010 and 31 December 2011 was approximately NZD0.8 million. The AML/CFT Act will come fully into force on 30 June 2013 and will impose obligations on KVB NZ above and beyond those requirements imposed under the Financial Transactions Reporting Act 1996. However, KVB NZ already has policies in place above and beyond those requirements under the Financial Transactions Reporting Act 1996,

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including an established anti-money laundering policy developed in conjunction with its accountants. The Securities Act and the Securities Markets Act are proposed to be consolidated and amended by replacement legislation which is expected to pass into law in 2013 and to be implemented over a two-year period from 2014. The two-year implementation period will allow authorised futures dealers time to adjust to the new requirements and to obtain new market services licences.

AUSTRALIAN REGULATORY OVERVIEW

Overview of licensing requirements

An AFSL is generally required in order to carry on a financial services business which provides financial services or issues/offers financial products to clients. The general definition of a financial product is a facility through which (or through the acquisition of which) a person makes a financial investment or manages financial risk or makes non-cash payments. There are specifically included and excluded categories of products.

There are five main categories of AFSL authorisations which can be sought, as follows:

- (a) provision of advice in a financial product;
- (b) provision of dealing (issuing and/or arranging) services in relation to a financial product;
- (c) making a market in a financial product;
- (d) operating a registered (managed investment) scheme; and
- (e) operating a custodial or depository service.

KVB AU holds an AFSL containing the first three categories of authorisations.

In order to obtain an AFSL, an online application addressing the key aspects of the proposed financial services business must be lodged with the ASIC, together with a number of core statements and supporting evidence, detailing a description of the business, the organisational competence of the licensee (specifically, its nominated responsible managers), and how the financial obligations will be met. In the assessment phase, the ASIC may then request a number of additional statements regarding, among others, risk management, compliance arrangements, supervision of representatives, adequacy of resources, outsourcing arrangements, dispute resolution arrangements, and conflicts of interest management arrangements, research and benefits. The ASIC may also request product or service specific statements regarding derivatives, forex contracts, making a market, as well as several others where relevant to the application.

In order for an application to be accepted by the ASIC in terms of evidencing organisational competence, the nominated responsible managers must satisfy one of five options, detailed in the ASIC Regulatory Guide 105. In summary, where a nominated responsible manager has a relevant university degree or industry-relevant diploma, they must also evidence relevant experience in three out of the last five years. Where the responsible manager has undertaken an individual assessment

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by an authorised assessor demonstrating relevant knowledge equivalent to a diploma, they must also evidence relevant experience in five out of the last eight years. In the absence of formal relevant educational qualifications, they must evidence significant relevant experience. Responsible managers must also submit two business references attesting to their relevant experience, certified copies of any educational qualifications, a satisfactory criminal history check, a satisfactory insolvency check, and a signed statement of personal information (which includes various declarations).

Once an AFSL has been issued, a licensee will be subject to a range of ongoing compliance obligations, which include the following:

- (a) maintenance of adequate financial, human and technological resources;
- (b) compliance with the applicable ASIC Regulatory Guides (for example, RG 166 detailing a licensee's ongoing financial obligations);
- (c) monitoring and supervision of staff and compliance with licence conditions and applicable laws;
- (d) ensuring staff are adequately trained and competent to provide financial services;
- (e) establishment and maintenance of adequate arrangements to manage conflicts of interest;
- (f) establishment and maintenance of adequate risk management systems;
- (g) maintenance of adequate compensation arrangements;
- (h) maintenance of an internal dispute resolution process covering complaints received in connection with all financial services provided (and maintenance of a membership of an approved external dispute resolution scheme);
- (i) appointment of an external independent auditor for the procurement of an annual independent external financial audit and lodgement of relevant statements in relation thereto within four months of the end of each financial year; and
- (j) notification to the ASIC of any significant breaches of the licence or law within 10 business days after becoming aware of such breach (or likely breach).

The following constitutes only a very general overview of the legislation which may be relevant to the business conducted by our Group in Australia.

Corporations Act 2001 (Cth)

- (a) *Corporations Act 2001* (Cth) regulates companies registered in Australia and specifically, Chapter 7 regulates the provision of financial services in Australia.

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- (b) The main object of this chapter is to promote:
 - (i) confident and informed decision making by consumers of financial products and services while facilitating efficiency, flexibility and innovation in the provision of those products and services;
 - (ii) fairness, honesty and professionalism by those who provide financial services;
 - (iii) fair, orderly and transparent markets for financial products; and
 - (iv) reduction in systemic risk and provision of fair and effective services by clearing and settlement facilities.
- (c) This is achieved by:
 - (i) licensing of providers of financial services and products;
 - (ii) compliance, conduct and disclosure requirements for licensed financial service providers; and
 - (iii) the imposition of rules relating to markets and the issue, sale and purchase of financial products.

Australian Securities and Investments Commission Act 2001 (Cth)

The Australian Securities and Investments Commission Act 2001 (Cth):

- (a) establishes Australia's corporations and financial service regulator, the ASIC; and
- (b) contains various consumer protection provisions in relation to the provision of financial services including prohibitions on unfair contract terms, unconscionable conduct, and false, misleading or deceptive conduct.

Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth)

- (a) The *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth) establishes Australia's anti-money laundering and counter-terrorism financing regime and imposes various obligations on "reporting entities" (financial institutions, or other persons, who provide "designated services").
- (b) The key obligations include:
 - (i) establishing and maintaining an anti-money laundering and counter-terrorism financing program, detailing client identification, verification and risk categorisation procedures, suspicious matters, enhanced due diligence, and ongoing monitoring;

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and implementing staff training, Board oversight, appointment of an anti-money laundering and countering financing of terrorism officer and reporting to the Australian Transactions Reports and Analysis Centre (the “AUSTRAC”);

- (ii) carrying out a procedure for verifying a client’s identity before providing a designated service to the client;
- (iii) reporting the following to the Chief Executive Officer of the AUSTRAC:
 - (A) suspicious matters;
 - (B) certain transactions above a threshold.

Competition and Consumer Act 2010 (Cth) (formerly the Trade Practices Act 1974 (Cth))

- (a) The Competition and Consumer Act 2010 (Cth) aims to enhance the welfare of Australians by promoting competition and fair trading and providing for consumer protection.
- (b) The Competition and Consumer Act 2010 (Cth) deals with almost all aspects of the marketplace: the relationships among suppliers, wholesalers, retailers, competitors and clients. It covers anti-competitive conduct, unfair market practices, industry codes, mergers and acquisitions of companies, product safety, product labelling, price monitoring and the regulation of industries.

Privacy Act 1988 (Cth)

- (a) The *Privacy Act 1988* (Cth) regulates how personal information is handled. For example, it covers:
 - (i) how personal information is collected (e.g. the personal information provided when clients fill in a form);
 - (ii) how it is then used and disclosed;
 - (iii) its accuracy;
 - (iv) how securely it is kept; and
 - (v) clients’ general right to access that information.
- (b) The privacy principles provided in conjunction with the Privacy Act 1988 (Cth), mandate (where applicable) the general requirements for collection, use, disclosure, security, access, anonymity, transborder data flows and sensitive information.

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- (c) If an agency or organisation breaches the privacy principles, the Office of the Australian Information Commissioner (the “**OAIC**”) may investigate the matter. Individuals can also make a privacy complaint to the OAIC about an agency or organisation if they think their information has been mishandled.

The Privacy Amendment (Enhancing Privacy Protection) Act 2012 was passed in December 2012 which amended the Privacy Act in the following ways, briefly:

- (a) creating a single set of Australian Privacy Principles applying to both government and private sector organisations, replacing the previous National Privacy Principles;
- (b) introducing a more comprehensive credit reporting with improved privacy protections;
- (c) introducing new provisions on privacy codes and the credit reporting code; and
- (d) clarifying the functions and powers of the commissioner.

Regulations

Corporations Regulations 2001 (Cth)

The Corporations Regulations modify and impose additional requirements to those contained in the Corporations Act 2001 (Cth). The Corporations Regulations comprise exclusions, exemptions, definitions and further detail in relation to the operation of specific requirements of certain provisions in the related act.

Australian Securities and Investments Commission Regulations 2001 (Cth)

The Australian Securities and Investments Commission Regulations were enacted to provide additional prescriptive detail in relation to certain provisions and requirements contained in the Australian Securities and Investments Commission Act 2001 (Cth), including panel procedures.

Anti-Money Laundering and Counter-Terrorism Financing Regulations 2008 (Cth)

The Anti-Money Laundering and Counter-Terrorism Financing Regulations were enacted to amend one of the designated services in the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth) to ensure that managed investments schemes are caught by that Act.

Competition and Consumer Regulations 2010 (Cth)

The Competition and Consumer Regulations were enacted to replace the Trade Practices Regulations, in relation to the replacement of the Trade Practices Act 1974 (Cth) by the recent enactment of the Competition and Consumer Act 2010 (Cth). The Competition and Consumer Regulations provide additional provisions and requirements to those contained in the Competition and Consumer Act and also clarify and expand on such requirements.

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Privacy (Private Sector) Regulations 2001 (Cth)

The Privacy (Private Sector) Regulations were enacted to provide additional prescriptive detail in relation to certain provisions contained in the Privacy Act 1988 (Cth), including exceptions to the Australian Privacy Principles.

Others

Capital requirement of KVB AU

Pursuant to KVB AU's AFSL, KVB AU must comply with certain financial requirements, including maintaining a minimum level of liquid funds and positive net tangible assets. Specific financial requirements apply in respect of various financial services activities carried on by KVB AU including the provision of forex contracts and over-the-counter derivatives to retail clients, holding client money or property, and transacting with clients as principal.

Profit remittances and capital repatriation

There are no restrictions on profit remittances or capital repatriation from Australia to Hong Kong.

Impact of recent regulatory changes on the operations of our Group

During the Track Record Period, the Corporations Act 2001 and the Corporations Regulations 2001 of Australia were amended regularly to enhance or clarify the regulatory requirements. The ASIC Regulatory Guides were published and revised on a regular basis by the ASIC during the Track Record Period. However, the legal advisers to our Company as to Australian law have confirmed that they are not aware of any new provisions or regulatory guides which would have materially impacted KVB AU's operation or financial results during the Track Record Period.

HONG KONG REGULATORY OVERVIEW

The SFC is an independent non-governmental statutory body outside the civil service responsible for regulating the securities and futures markets in Hong Kong. The SFC supervises Hong Kong Exchanges and Clearing Limited, being the recognised exchange controller in Hong Kong which operates the Stock Exchange, Hong Kong Futures Exchange and HKSCC.

Overview of licensing requirements

Under the SFO, any person:

- (a) carrying on a regulated activity (or holding out as carrying on a regulated activity); or
- (b) actively marketing (whether in Hong Kong or from a place outside of Hong Kong) to the Hong Kong public such services which, if provided in Hong Kong, would constitute a regulated activity

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must be licensed by the SFC to carry out that regulated activity, unless one of the exemptions under the SFO applies. Authorised financial institutions are subject to slightly different rules.

There are 10 types of “regulated activities”. They are:

- Type 1: Dealing in securities
- Type 2: Dealing in futures contracts
- Type 3: Leveraged forex trading
- Type 4: Advising on securities
- Type 5: Advising on futures contracts
- Type 6: Advising on corporate finance
- Type 7: Providing automated trading services
- Type 8: Securities margin financing
- Type 9: Asset management
- Type 10: Providing credit rating services

KVB HK carries on and is licensed for type 3 regulated activity with a condition that it shall not provide discretionary account services to its clients.

All corporations or individuals carrying on any regulated activities have to be licensed by or registered with the SFC. Pursuant to the SFO, an individual performing a regulated function for his principal which is a licensed corporation in relation to a regulated activity carried on as a business or holding out as performing such function needs to apply to be a licensed representative accredited to his principal. The SFO promulgates a single licensing regime where a person only needs one licence or registration to carry on different types of regulated activities.

“Fit and proper” requirement

Pursuant to section 129(1) of the SFO, in considering whether a person, an individual, corporation or institution, is fit and proper for the purpose of licensing or registration, the SFC shall, in addition to any other matter which the SFC may consider relevant, have regard to the following:

- (a) financial status or solvency;
- (b) educational or other qualifications or experience having regard to the nature of the functions to be performed;

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- (c) ability to carry on the regulated activity concerned competently, honestly and fairly; and
- (d) reputation, character, reliability and financial integrity of the applicant and other relevant persons of the corporation or institution as appropriate.

In simple terms, a fit and proper person means one who is financially sound, competent, honest, reputable and reliable.

In addition, section 129(2) of the SFO empowers the SFC to take into consideration any of the following matters in determining whether a person is fit and proper:

- (a) decisions made by such relevant authorities as stated in section 129(2)(a) of the SFO or any other authority or regulatory organisation, whether in Hong Kong or elsewhere, in respect of that person;
- (b) in the case of a corporation, any information relating to:
 - (i) any other corporation within the group of companies; or
 - (ii) any substantial shareholder or officer of the corporation or of any of its group companies;
- (c) in the case of a corporation licensed under section 116 or section 117 of the SFO or registered under section 119 of the SFO or an application for such licence or registration:
 - (i) any information relating to any other person who will be acting for or on its behalf in relation to the regulated activity; and
 - (ii) whether the person has established effective internal control procedures and risk management systems to ensure its compliance with all applicable regulatory requirements under any of the relevant provisions;
- (d) in the case of a corporation licensed under section 116 or section 117 of the SFO or an application for the licence, any information relating to any person who is or to be employed by, or associated with, the person for the purpose of the regulated activity; and
- (e) the state of affairs of any other business which the person carries on or proposes to carry on.

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The SFC published *The Fit and Proper Guidelines* under section 399 of the SFO in September 2006 which set out a number of matters which the SFC will normally consider in determining whether a person is fit and proper. *The Fit and Proper Guidelines* apply to a number of persons including the following:

- (a) an individual who applies for licence or is licensed under Part V of the SFO;
- (b) a licensed representative who applies for approval or is approved as a responsible officer under Part V of the SFO;
- (c) a corporation which applies for licence or is licensed under Part V of the SFO;
- (d) an authorised financial institution which applies for registration or is registered under Part V of the SFO;
- (e) an individual whose name is to be or is entered in the register maintained by the HKMA under section 20 of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong); and
- (f) an individual who applies to be or has been given consent to act as an executive officer of a registered institution under section 71C of the Banking Ordinance.

Persons applying for licences and registrations under the SFO must satisfy and continue to satisfy after the grant of such licences and registrations the SFC that they are fit and proper persons to be so licensed or registered.

The SFC is obliged to refuse an application to be licensed if the applicant fails to satisfy the SFC that he is a fit and proper person to be licensed. The onus is on the applicant to make out a case that he is fit and proper to be licensed for the regulated activity. In relation to an application to be registered under section 119 of the SFO by an authorised financial institution, the SFC is obliged to have regard to the advice given to it by the HKMA as to whether it has been satisfied that the applicant is a fit and proper person and the SFC may rely on such advice wholly or partly.

The substantial shareholders of a licensed corporation, its officers (including every director, manager or secretary and any person involved in its management) and any other person who is or is to be employed by or associated with the licensed corporation must also meet the fit and proper test. For this purpose, a person is a “substantial shareholder” of a corporation if he/she, either alone or with his/her “associates” (as defined in the SFO):

- (a) has an interest in its shares which is equal to more than the nominal value of 10% of the issued share capital of the corporation or which entitles the person, either alone or with his/her associates, to exercise or control the exercise of more than 10% of the voting power at general meetings of the corporation; or

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- (b) holds shares in any other corporation which entitles him/her, either alone or with his associates, to exercise or control the exercise of 35% or more of the voting power at general meetings of the other corporation, or of a further corporation, which is itself entitled, alone or with his/her associates, to exercise or control the exercise of more than 10% of the voting power at general meetings of the corporation.

The SFC, in considering whether a licensed or registered person satisfies the requirement that it is fit and proper to remain licensed or registered, will have regard to the general principles of the *Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission* (the “**Code of Conduct**”) published by the SFC in June 2012. These principals include:

- (a) Honesty and fairness – In conducting its business activities, a licensed or registered person should act honestly, fairly, and in the best interests of its clients and the integrity of the market.
- (b) Diligence – In conducting its business activities, a licensed or registered person should act with due skill, care and diligence, in the best interests of its clients and the integrity of the market.
- (c) Capabilities – A licensed or registered person should have and employ effectively the resources and procedures which are needed for the proper performance of its business activities.
- (d) Information about clients – A licensed or registered person should seek from its clients information about their financial situation, investment experience and investment objectives relevant to the services to be provided.
- (e) Information for clients – A licensed or registered person should make adequate disclosure of relevant material information in its dealings with its clients.
- (f) Conflicts of interest – A licensed or registered person should try to avoid conflicts of interest, and when they cannot be avoided, should ensure that its clients are fairly treated.
- (g) Compliance – A licensed or registered person should comply with all regulatory requirements applicable to the conduct of its business activities so as to promote the best interests of clients and the integrity of the market.
- (h) Client assets – A licensed or registered person should ensure that client assets are promptly and properly accounted for and adequately safeguarded.
- (i) Responsibility of senior management – The senior management of a licensed or registered person should bear primary responsibility for ensuring the maintenance of appropriate standards of conduct and adherence to proper procedures by the firm. In determining

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where responsibility lies, and the degree of responsibility of a particular individual, regard shall be had to that individual's apparent or actual authority in relation to the particular business operations and that individual's level of responsibility within the firm, any supervisory duties that individual may perform, and the level of control or knowledge that individual may have concerning any failure by the firm or persons under their supervision to follow the Code of Conduct.

The Code of Conduct further provides that a licensed or registered person should have internal control procedures and financial and operational capabilities which can be reasonably expected to protect its operations, its clients and other licensed or registered persons from financial loss arising from theft, fraud, and other dishonest acts, professional misconduct or omissions.

In this connection, the SFC issued the Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the Securities and Futures Commission (the "**Internal Control Guidelines**") in April 2003, which relates to the manner in which licensed or registered persons structure, manage and operate the respective regulated activities for which they are licensed or registered and in particular, the existence of satisfactory internal control and internal management systems (collectively, the "**internal controls**").

In general, "internal controls" represents the manner in which a business is structured and operated so that reasonable assurance is provided of:

- (a) the ability to carry on the business in an orderly and efficient manner;
- (b) the safeguarding of its and its clients' assets;
- (c) the maintenance of proper records and the reliability of financial and other information used within and published by, the business; and
- (d) the compliance with all applicable laws and regulatory requirements.

The Internal Control Guidelines are designed to provide meaningful guidance to licensed or registered persons with respect to the SFC's expectations in relation to internal controls.

Where the SFC has information which suggests that a licensed or registered person is not fit and proper to remain licensed or registered, it may conduct an investigation under section 182(1)(e) of the SFO. This information may refer to how the licensed or registered person conducts the business or carries on the activity for which the person is licensed or registered.

There are various schedules attached to the Code of Conduct which provide, among other things, supplemental materials such as risk disclosure statements. There are also specific schedules of provisions which apply to licensed or registered persons dealing in securities and/or futures listed or traded on the Stock Exchange or Hong Kong Futures Exchange Limited or engaging in leveraged forex trading. Requirements for licensed persons engaging in leveraged forex trading are further elaborated below.

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Responsible officers

Pursuant to section 125(1) of the SFO, each licensed corporation must have two “responsible officers” to supervise the regulated activity of the licensed corporation. At least one of the “responsible officers” must be an executive director of the licensed corporation approved by the SFC who actively participates in or is responsible for directly supervising the business of a regulated activity for which the licensed corporation is licensed.

Minimum capital requirements

Section 145(2) of the SFO provides that all licensed corporations are required to have a minimum level of paid-up share capital and liquid capital in respect of the regulated activities for which the application for licence is made and to maintain at all time such minimum level of paid-up share capital and liquid capital. Set out below are the minimum paid-up capital and liquid capital in respect of the regulated activity which our Group is licensed to carry on under the Securities and Futures (Financial Resources) Rules (Chapter 571N of the Laws of Hong Kong).

Minimum paid-up share capital

Type 3 – leveraged forex trading	Minimum paid-up share capital	Minimum liquid capital
(a) in the case where the licensed corporation is an approved introducing agent	HK\$5,000,000	HK\$3,000,000
(b) in any other case	HK\$30,000,000	HK\$15,000,000

Note: A licensed corporation shall maintain a minimum liquid capital of the higher of the amount stated above or 5% of the aggregate of the licensed corporation’s on-balance sheet liabilities including provisions made for liabilities already incurred or for contingent liabilities but excluding certain amount stipulated in the definition of “adjusted liabilities” under the SFO.

Schedule 6 of the Code of Conduct – Additional requirements for licensed persons engaging in leveraged forex trading

Apart from the SFO, licensed persons, including corporations and individuals, engaging in leveraged forex trading are subject to the following additional requirements:

(a) Client agreement

A licensed person must enter into written agreement before commencing trade with clients. Such agreement shall contain, among others, the following information:

- (i) a statement whether the client is trading on his own account and disclosure of the ultimate beneficiary; and

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- (ii) a statement by the licensed person as to whether it may take the opposite position to a client's order.

(b) *Statement of client information*

A licensed person shall obtain from each of its clients a written statement which contains information about the client.

(c) *Client orders*

A licensed person shall (a) ensure that all telephone orders from a client are recorded on the centralised tape recording system operated by it; and (b) record in writing each order, whether made by telephone or otherwise, immediately after it is received.

A licensed person shall confirm the details of each order executed as soon as possible with that client or his agent, as the case may be, through a telephone connected to the centralised tape recording system.

(d) *Client's margin*

A licensed person should set the initial margin and maintenance margin level for its clients at not less than 5% and 3%, respectively, of the gross principal value of the contract offered by the licensed person. For cross currency trades and locked positions (i.e. situation where a client simultaneously holds an equal long and short position of the same currency), only one set of margin is required.

Except as provided in the following paragraph, no licensed person should execute any contract for a client until and unless the licensed person has received from the client a margin deposit adequate to cover the initial margin required.

A licensed person may execute a contract for a client, other than a discretionary account client, without first having received the initial margin from that client if it is reasonably satisfied that, given the investment objectives, investment strategy and financial position of that client, the full amount of the initial margin will be deposited by the client within the next business day or such shorter period as may be specified by the licensed person.

(e) *No credit on margin*

Except as expressly provided in the above paragraph headed "Client's margin", a licensed person shall not extend any credit or give any rebate of any kind to a client which has the effect of circumventing or evading the margin requirements specified.

(f) *Restricted use of margin collateral*

A licensed person shall ensure that margin deposits and other assets of its clients and recognised counterparties are properly safeguarded and are held separately from the assets of the licensed person.

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(g) *Personal trading by staff*

No representative or employee of a licensed person should be a client of another licensed person for trading in leveraged forex contracts. A licensed person must make reasonable enquiries to ensure that none of its representatives or employees contravenes such requirement.

A licensed person who permits its representatives or employees to trade for their own account in leveraged forex contracts should ensure that contracts undertaken for the account of a representative or employee must be reported to and reviewed on a daily basis by senior management of the licensed person.

(h) *Trading practices*

A licensed person should (a) disclose its trading hours to its clients, specifying the beginning and ending hours of a business day; and (b) display at each of its places of business a prominent notice which shows the aforesaid information.

A licensed person should quote both the bid and offer prices at the request of a client. A licensed person should not quote a price for a contract without specifying whether the price is, for a given quantity of contracts, a firm one or merely indicative. A licensed person quoting a price for a contract to any person should inform that person that the price given by it is available only for a limited period of time and, where practicable, specify the time period in question. All contracts should be recorded in trading slips which are time stamped.

(i) *Record of client's complaints*

A licensed person should (a) maintain a written record of any complaints from clients; and (b) establish and implement proper procedures for handling and investigating such complaints.

A licensed person should inform a client of the results of any complaints made by him/her as soon as practicable and in any event within three business days of determining the results of that complaint.

On-going obligations for licensed corporations and licensed representatives

- (a) licensed corporations and licensed representatives must remain fit and proper at all times;
- (b) licensed corporations and licensed representatives are required to notify the SFC of certain events and changes in their particulars within the specified time limit;
- (c) licensed corporations are required to submit their audited accounts and other required documents within four months after the end of each financial year;

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- (d) licensed corporations are required to submit monthly financial resources returns to the SFC except for those corporations licensed for only type 4, type 5, type 6 and/or type 9 regulated activities and their licences are subject to the condition that they shall not hold client assets;
- (e) licensed persons and registered institutions should pay annual fees within one month after each anniversary date of their licences or registrations;
- (f) licensed corporations and licensed representatives are required to submit annual returns to the SFC within one month after each anniversary date of their licences; and
- (g) representatives of licensed corporations and registered institutions are generally required to complete five continuous professional training hours per calendar year for each regulated activity which they may carry out except for type 7 regulated activity.

Anti-money laundering and terrorist financing

The Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (Chapter 615 of the Laws of Hong Kong) (the “**AMLO**”) came into effect on 1 April 2012. The AMLO provides a uniform set of requirements applicable to all financial institutions in banking, securities, insurance and remittance and money changing sectors. The SFC has issued a new set of guidelines including the Guideline on Anti-Money Laundering and Counter-Terrorist Financing and the Prevention of Money Laundering and Terrorist Financing Guideline, which are intended to assist licensed corporations and associated entities in designing and implementing appropriate and effective policies, procedures and controls in compliance with the requirements of the AMLO and other applicable legislation and regulatory requirements.

Pursuant to the AMLO, it is a criminal offence if a financial institution, knowingly or with the intent to defraud any regulatory authority, contravenes a specified provision under the AMLO. Specified provisions include but not limited to client due diligence and record keeping requirements.

Licensed corporations registered under the SFO are also required to comply with the applicable anti-money laundering laws and regulations in Hong Kong, such as, the Drug Trafficking (Recovery of Proceeds) Ordinance (Chapter 405 of the Laws of Hong Kong), the Organised and Serious Crimes Ordinance (Chapter 455 of the Laws of Hong Kong) and the United Nations (Anti-Terrorism Measures) Ordinance (Chapter 575 of the Laws of Hong Kong).

The SFC recommends that licensed corporations develop client acceptance policies and procedures which aim to identify the types of clients that are likely to pose a higher than average risk of money laundering and terrorist financing. There should be clear internal policies specifying the level of management which is able to approve a business relationship with clients.

Licensed corporations should have monitoring procedures for identifying suspicious transactions in place. This is to satisfy its legal obligation to report any funds or property known or suspected by it to be proceeds of crime or terrorist property to the Joint Financial Intelligence Unit (the “**JFIU**”), a unit jointly run by the Hong Kong Police Force and the Hong Kong Customs and Excise Department to monitor and investigate suspected money laundering.

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The JFIU recommends four steps to identify suspicious activity:

- (a) recognition of indicators of suspicious financial activity;
- (b) questioning of the client;
- (c) review of information already known about the client to decide if (apparently) suspicious activity is to be expected from the client; and
- (d) consideration of steps one to three to make a subjective decision on whether the client's financial activity is genuinely suspicious or not.

The Personal Data (Privacy) (Amendment) Ordinance 2012

The Personal Data (Privacy) (Amendment) Ordinance 2012 (the “**Amendment Ordinance**”) was adopted in July 2012. One of the most significant changes the Amendment Ordinance made to the existing Personal Data (Privacy) Ordinance is the tightening of control over the use and provision of personal data in direct marketing activities. The new regime is particularly relevant to organisations which engage in direct marketing activities or acquire and transfer personal data to third parties for direct marketing purpose. The Amendment Ordinance also makes certain amendments to the data protection principles, introduces new offences and penalties, and enhances the authority of the Privacy Commissioner for Personal Data (the “**Commissioner**”). The majority of the Amendment Ordinance came into effect on 1 October 2012, while provisions concerning the new direct marketing regime and the legal assistance scheme provided by the Commissioner took effect on 1 April 2013.

The Amendment Ordinance creates a new direct marketing regime to establish the rights and obligations of parties using personal information for direct marketing purpose or transferring personal information to a third party for marketing purpose. Under the new regime, an organisation can only use or transfer personal information for direct marketing purpose if that organisation has provided the required information and consent mechanism to the individual concerned, and obtained his or her consent. Under the Amendment Ordinance, it is a criminal offence, punishable by fines and imprisonment, for an organisation to fail to comply with any of these new requirements.

The Amendment Ordinance introduces new security requirements with respect to the retention of personal data transferred by data users to third party data processors. Organisations are now required to have in place procedures to ensure that any personal information transferred to any service provider is not retained for longer than necessary, and is protected against any unauthorised or accidental access, processing, erasure, loss or use.

Under the Amendment Ordinance, a new offence has been created to deter malicious disclosure of personal information without individuals' consent. Any person who has obtained personal information from an individual is prohibited from subsequently disclosing the information without the individual's consent, where such disclosure (a) is made with intent to obtain gain or cause loss to the individual concerned; or (b) causes psychological harm to that individual. The maximum penalty of this offence is a fine of HK\$1,000,000 and five years' imprisonment.

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CAPITAL AND STAFF QUALIFICATIONS UNDER DIFFERENT JURISDICTIONS

Set out below is the comparison of the capital and staff qualifications under the relevant laws, rules and regulations for each of KVB NZ, KVB AU and KVB HK:

	KVB NZ	KVB AU	KVB HK
Requirements			
Required liquid capital	<p>Surplus liquid funds (aggregate of all its liquid assets, less any risk-based reductions in its liquid assets, less its gross external liabilities) exceeds its prescribed liquid funds amount of NZD1,000,000 (equivalent to approximately HK\$6,373,000)</p> <p>The surplus liquid funds are calculated daily by our accounting staff, monitored and signed off by our local financial controller. The month-end calculation is forwarded to and reviewed by our compliance reporter in New Zealand</p>	<p>Required to maintain net tangible assets of the greater of AUD500,000 or 5% of the average revenue, with 50% of the net tangible assets held in cash or cash equivalents with the remaining 50% held in liquid assets</p> <p>As at 31 January 2013 (being the date of the new regulations coming into effect) and the Latest Practicable Date, the net tangible assets of KVB AU amounted to AUD886,256 and AUD795,052, respectively</p>	<p>HK\$15,000,000 or 5% of adjusted liabilities</p> <p>As at 31 December 2012, the required liquid capital of KVB HK was HK\$15,000,000</p>

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	KVB NZ	KVB AU	KVB HK
Staff qualifications	<p>Each NZX advising firm must at all times be under the control of an accredited NZX adviser or NZX associate adviser</p> <p>All employees advising for the purpose of the NZX Participant Rules must either be accredited NZX advisers or NZX associate advisers</p> <p>An NZX diploma is a prerequisite to being either an NZX adviser or NZX associate adviser</p> <p>To meet the qualification requirements to be an NZX adviser, the person must have completed all the core courses and any two of the six optional courses of the NZX diploma</p> <p>To be an NZX associate adviser, the person must have completed two core courses (The New Zealand Stock Market and Securities Law and Market Regulation in New Zealand)</p>	<p>Must have at least one responsible manager having regard to the nature, scale and complexity of its business</p> <p>Must have sufficient relevant experience, knowledge and qualifications to provide the financial services authorised on the licence</p> <p>General staff must meet the educational standard established in Regulatory Guide 146 (Licensing: Training of financial product advisers) or be supervised by someone who meets that standard</p>	<p>Must appoint two responsible officers</p> <p>At least one responsible officer must be executive director</p> <p>At least one responsible officer must be resident in Hong Kong</p> <p>A responsible officer must be fit and proper and has sufficient authority within the licensed corporation</p> <p>A responsible officer of a licensed corporation carrying out type 3 (leveraged forex trading) regulated activity is required to have the following qualifications:</p> <ul style="list-style-type: none"> (a) Passed the recognised industry qualifications – Vocational Training Council Leveraged Forex Trader’s Responsible Director Examination Paper 2 (b) Possesses three years relevant industry experience over the six years immediately prior to the date of application (c) Has a minimum of two years proven management skill and experience

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KVB NZ

A person who is registered as an authorised financial adviser under the FAA must have previously met the minimum standards of competence, knowledge, and skills required to provide financial adviser services

This requires the adviser to have attained the Unit Standard Sets within the National Certificate in Financial Services (Financial Advice) (Level 5) which are relevant to the financial adviser services provided by the adviser, or to have attained a recognised alternative qualification or designation

KVB AU

KVB HK

(d) Passed the recognised local regulatory framework papers – Vocational Training Council Leveraged Forex Trader’s Responsible Director Examination Paper 1

A licensed representative of a licensed corporation carrying out type 3 (leveraged forex trading) regulated activity is required to have the following qualifications:

(a) Passes in English or Chinese, and Mathematics in Hong Kong Certificate of Education Examination or equivalent

(b) Passed one of the recognised industry qualifications – Vocational Training Council Leveraged Forex Trader’s Responsible Director Examination Paper 2 or Vocational Training Council Leveraged Forex Trader’s Representative Examination Paper 2

(c) Passed one of the recognised local regulatory framework papers – Vocational Training Council Leveraged Forex Trader’s Responsible Director Examination Paper 1 or Vocational Training Council Leveraged Forex Trader’s Representative Examination Paper 1

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	KVB NZ	KVB AU	KVB HK
Current positions			
Liquid capital	<p>As at 31 December 2012, KVB NZ had surplus liquid funds of NZD9,998,259</p> <p>KVB NZ complied with the required capital requirement during the Track Record Period and up to the Latest Practicable Date</p>	<p>As at 31 January 2013 (being the date of the new regulations coming into effect) and the Latest Practicable Date, the net tangible assets of KVB AU amounted to AUD886,256 and AUD795,052, respectively</p> <p>KVB AU complied with the required net tangible asset requirement during the Track Record Period and up to the Latest Practicable Date</p>	<p>As at 31 December 2012, KVB HK had a surplus liquid capital of HK\$72,937,000</p> <p>KVB HK complied with the required capital requirement during the Track Record Period and up to the Latest Practicable Date</p>
Staff qualifications	<p>Mr. Chee Joo Koh, an NZX adviser, has been assessed and accepted by NZX as meeting the required standard</p>	<p>Mr. So Chi Hang Stephen and Ms. Tracy Marie Byrne, the responsible managers have been assessed and accepted by the ASIC as meeting the required standard</p>	<p>All responsible officers (namely Mr. Liu Stefan, Mr. Ng Chee Hung Frederick, Mr. Huang Songyuan and Mr. Chan Chi Hung) have been assessed and accepted by the SFC as meeting the required standard</p> <p>All licensed representatives (namely Mr. Chan Kin Wah, Mr. Kam Wai Kit, Mr. Luk King Man, Mr. Qiu Bin, Mr. Sun Maoyuan, Mr. Tsang Ming Fung, Mr. Tso Sin Cheung, Mr. Tsui Wing Fat, Mr. Yang Wenhuan and Mr. Zheng Weida) have been assessed and accepted by the SFC as meeting the required standard</p>

Based on the relevant filings, auditors' semi-annual reports and documents provided by the relevant members of our Group, the legal advisers to our Company as to New Zealand law, Australian law and Hong Kong law have each advised KVB NZ, KVB AU and KVB HK, respectively, that it had complied with the relevant liquid capital requirement in relation to its operations 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, staff of KVB NZ are not required to hold any licence or authorisation for the purpose of KVB NZ's authorisation as a futures dealer. As an NZX advising firm pursuant to the NZX Participant Rules, KVB NZ is required to have at least one employee who is at all times an NZX adviser. As disclosed above, Mr. Chee Joo Koh is an NZX adviser of KVB NZ.

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Depending on the jurisdictions in which we operate, we will be subject to the laws, rules and regulations of such jurisdiction. We carry on our business in New Zealand, Australia and Hong Kong through our offices in such jurisdictions and our servers situated in New Zealand and Hong Kong. The business of our Group is thus regulated by the laws, rules and regulations in New Zealand, Australia and Hong Kong, and the operating subsidiaries of our Group are required to be, and to remain, authorised by or licensed with the FMA, the ASIC or the SFC (as the case may be).

Our Directors have confirmed that to the best of their knowledge, our Group and our staff have obtained all the necessary authorisations, licences and qualifications to operate our business in New Zealand, Australia and Hong Kong and all such authorisations and licences remained valid and effective as at the Latest Practicable Date.

As advised by the legal advisers to our Company as to New Zealand law, Australian law and Hong Kong law, there are no regulations or controls imposed on our clients for trading of forex, index and commodity under New Zealand law, Australian law and Hong Kong law, respectively.

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 complied with all the relevant laws, rules and regulations in conducting our business in all material respects during the Track Record Period; and has further confirmed that to the best of their knowledge, our Group and our staff have obtained all the necessary authorisations, licences and qualifications to operate our business in New Zealand, Australia and Hong Kong and all such authorisations and licences remained valid and effective as at the Latest Practicable Date.

Our Directors consider that renewal of our licences to carry on our business is dependent on our compliance with the relevant laws, rules and regulations. As such, we have in place various measures to ensure our compliance with the relevant laws, rules and regulations. We have also set up the GARC Committee to oversee our internal control procedures. Our head of risk and compliance, namely Ms. Tracy Marie Byrne, is responsible for monitoring the ongoing compliance with the applicable laws, rules and regulations including those related to financial services and anti-money laundering. Further, we have appointed a tax specialist firm in New Zealand as tax agent to deal with tax matters in New Zealand to ensure that our Group will comply with local tax laws. As the AML/CFT Act came into effect on 17 October 2009 with a transitional period expiring on 30 June 2013, we are only required to comply with the provisions by then. We are in the process of preparing an entity specific anti-money laundering and countering financing of terrorism compliance programme the measures of which will also be applicable to KVB AU and KVB HK. Our compliance adviser who has been appointed in accordance with the requirements of the GEM Listing Rules will advise us on the compliance with the GEM Listing Rules upon the Listing. The GARC Committee will work closely with our compliance adviser to ensure our compliance with the GEM Listing Rules. We will 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. For details of our internal control procedures, please refer to the paragraphs headed “Internal control and risk management” in the section headed “Business” in this prospectus.

HISTORY AND REORGANISATION

OUR BUSINESS DEVELOPMENT

Introduction

Our history can be traced back to 2001 when Mr. Li and the late Ms. Tsui incorporated KVB NZ in New Zealand. Since then, Mr. Li and the late Ms. Tsui have been passive investors and have not been involved in the development and the day-to-day operations of our Group. Mr. Liu Stefan joined KVB NZ as a director on the date of incorporation of KVB NZ and has been the key personnel responsible for our Group's ongoing development. Under the management of Mr. Liu Stefan, we launched leveraged forex trading services in 2003. Since 2003, we have expanded our forex trading and other investment services to the overseas Chinese and Japanese communities through our offices in New Zealand, Australia and Hong Kong as well as through other channels such as referral parties.

Business milestones

The key milestones in our business development are as follows:

- 2001
 - KVB NZ was established in Auckland, New Zealand
- 2002
 - KVB AU was established in Sydney, Australia
 - KVB NZ obtained the authorisation as an on-exchange futures dealer from the FMA *(Note 1)*
 - KVB HK was established in Hong Kong
- 2003
 - KVB NZ launched the first multilingual (i.e. Chinese, English and Japanese) supported online leveraged forex trading platform "ForexStar", with major currencies available for trading
 - KVB AU obtained the AFSL from the ASIC
- 2004
 - KVB AU established a branch in Melbourne, Australia
 - KVB HK obtained the type 3 (leveraged forex trading) licence from the SFC
- 2005
 - KVB NZ launched the "Information + Transaction" ForexStar Pocket PC trading platform to the Asia-Pacific region
 - KVB NZ obtained the authorisation as an off-exchange futures dealer from the FMA *(Note 1)*
- 2006
 - KVB NZ established the Beijing Office
 - Our Group launched AUD/RMB and NZD/RMB leveraged forex trading

HISTORY AND REORGANISATION

- 2008
 - KVB NZ launched index trading on ForexStar
 - Our Group launched precious metal trading on ForexStar
 - KVB NZ was approved by NZX to operate as an NZX advising firm
- 2009
 - Our Group added AUD and NZD multi-currency settlement accounts
 - KVB NZ introduced DTA Services to clients
 - KVB NZ introduced commodities trading on ForexStar
 - Our Group was awarded the winner of Import of Services by the HKABA as a recognition of our services and success in Australia
- 2010
 - Our Company was established in the Cayman Islands
 - The money changing business of KVB NZ and KVB AU was transferred to KVB FX and KVB FX Pty, respectively ^(Note 2)
- 2011
 - Our Group was 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)

Notes:

1. *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.*

As a condition of KVB NZ’s authorisation by the FMA as a futures dealer under the Authorised Futures Dealers Notice (No. 3) 2005, wherever KVB NZ states in a document that it has been authorised by the FMA to carry on the business of dealing in futures contracts, it is required to include a disclaimer statement to the effect that:

“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 legal advisers to our Company as to New Zealand law have confirmed that the above disclaimer statement is generally a condition of the authorisation of futures dealers in New Zealand and has not been imposed solely on KVB NZ. The above disclaimer reflects the regulatory role of the FMA. The legal advisers to our Company as to New Zealand law have further confirmed that as the FMA will not interfere with the day-to-day operations of KVB NZ, the FMA does not approve or endorse the business, trading or solvency of KVB NZ and does not approve the client services agreement or any disclosure documents of KVB NZ. However, the FMA will perform its regulatory role pursuant to the acts and regulations in New Zealand when there is non-compliance by KVB NZ.

HISTORY AND REORGANISATION

With respect to the Notice and the Futures Contracts (KVB Kunlun New Zealand Limited Agreements) Notice 2007, the authorisations are granted by FMA's giving of a notice which is published in the New Zealand Gazette. Both notices have been gazetted, notwithstanding the disclaimer statement. The legal advisers to our Company as to New Zealand law have confirmed that the disclaimer statement referred above does not affect the validity of the authorisations granted by the FMA to KVB NZ. The legal advisers to our Company as to New Zealand law have also confirmed that, except for the accreditation requirements of NZX required to act as an NZX participant, the day-to-day business of KVB NZ is not subject to other regulatory organisations other than the FMA.

- 2. On 1 January 2010, the money changing business of KVB NZ was transferred to KVB FX while that of KVB AU was transferred to KVB FX Pty to segregate the two lines of business into separate entities for nil consideration based on nil net book value, both by way of intra-group transfer of balances which was satisfied by a corresponding debit/credit in their respective current accounts on a dollar to dollar basis. No resulting gain or loss arose from these transfers.*

OUR CORPORATE HISTORY

Our Company was incorporated on 9 November 2010 in the Cayman Islands as an exempted company with limited liability in anticipation of the Listing. We have seven wholly owned subsidiaries, namely, LXL Capital I, LXL Capital II, LXL Capital III, LXL Capital IV, KVB NZ, KVB AU and KVB HK.

The following sets forth the corporate development of each member of our Group since their respective dates of incorporation. We also underwent certain reorganisation steps in contemplation of the Listing, particulars of which are set forth in the paragraph headed "Reorganisation" in this section.

LXL Capital I

LXL Capital I is an investment holding company incorporated in the BVI with limited liability on 8 April 2011, which is wholly owned by our Company.

LXL Capital II

LXL Capital II is an investment holding company incorporated in the BVI with limited liability on 8 April 2011, which is wholly owned by LXL Capital I.

LXL Capital III

LXL Capital III is an investment holding company incorporated in the BVI with limited liability on 8 April 2011, which is wholly owned by LXL Capital I.

LXL Capital IV

LXL Capital IV is an investment holding company incorporated in the BVI with limited liability on 8 April 2011, which is wholly owned by LXL Capital I.

HISTORY AND REORGANISATION

KVB NZ and its representative office

KVB NZ

KVB NZ, an indirect wholly owned subsidiary of our Company, was incorporated in New Zealand on 6 September 2001. Upon its incorporation, 9,500 and 500 ordinary shares were allotted and issued to Hui Zhong Holding and the late Ms. Tsui, respectively, for an aggregate consideration of NZD10,000,000.

On 3 December 2001, Hui Zhong Holding transferred its shares in KVB NZ in equal portion to Mr. Li and the late Ms. Tsui, respectively, for an aggregate consideration of NZD9,500,000, which was equivalent to the amount of investment made in connection with the 9,500 ordinary shares of KVB NZ originally held by Hui Zhong Holding. As a result, Mr. Li held 4,750 ordinary shares in KVB NZ and the late Ms. Tsui held 5,250 ordinary shares in KVB NZ. Such transfer was properly and legally completed and settled.

On 31 January 2002, KVB NZ allotted and issued 431,083 ordinary shares to Mr. Li and 431,000 ordinary shares to the late Ms. Tsui, credited as fully paid, for an aggregate consideration of NZD862,083. As a result, Mr. Li held 435,833 ordinary shares in the capital of KVB NZ and the late Ms. Tsui held 436,250 ordinary shares in the capital of KVB NZ.

On 21 May 2003, Mr. Li and the late Ms. Tsui were each allotted and issued 512,857 redeemable preference shares in the capital of KVB NZ, credited as fully paid, for an aggregate consideration of US\$1,025,714.

On 14 December 2005, Mr. Li and the late Ms. Tsui transferred their 872,083 ordinary shares in the capital of KVB NZ to KVB Holdings for an aggregate consideration of NZD10,862,083 and 1,025,714 redeemable preference shares in the capital of KVB NZ to KVB Holdings for an aggregate consideration of US\$1,025,714. The consideration for the transfer of the ordinary shares was based on the aggregate investment costs of Mr. Li and the late Ms. Tsui in acquiring the shares in the capital of KVB NZ and the consideration for the transfer of preference shares was based on the subscription price of US\$1.00 per preference share. Such transfer was properly and legally completed and settled. As a result, KVB NZ became a wholly owned subsidiary of KVB Holdings.

On 31 October 2006, KVB NZ redeemed all the 1,025,714 redeemable preference shares in its capital held by KVB Holdings at US\$1 per redeemable preference share.

To segregate two lines of business into separate entities, the money changing business of KVB NZ was transferred to KVB FX (a member of the Non-listed Group) on 1 January 2010 for nil consideration based on nil net book value by way of intra-group transfer of balances which was satisfied by a corresponding debit/credit in its account on a dollar to dollar basis. No resulting gain or loss arose from this transfer.

Pursuant to a sale and purchase agreement dated 4 May 2012, our Company acquired the entire issued share capital of KVB NZ from KVB Holdings, and directed that such shares in the capital of KVB NZ be held by LXL Capital II, for a consideration being the net asset value of KVB NZ as

HISTORY AND REORGANISATION

at 31 December 2011 which was satisfied by LXL Capital II crediting 100 nil paid shares in LXL Capital II allotted and issued to LXL Capital I as fully paid at a premium at the direction of KVB Holdings. Such transfer was properly and legally completed and settled on 4 May 2012. As a result, KVB NZ became a direct wholly owned subsidiary of LXL Capital II and an indirect wholly owned subsidiary of our Company.

The Beijing Office

The Beijing Office was established on 14 April 2006 in Beijing, the PRC. Mr. Liu Stefan was designated as the chief representative officer of the Beijing Office. As at the Latest Practicable Date, the chief representative officer of the Beijing Office was Mr. Chen Yanfeng.

According to the Management Method of Representatives in the PRC of Foreign-funded Financial Institutions (外資金融機構駐華代表機構管理辦法), the representative of any foreign financial institution in the PRC must abide by the applicable laws, rules and regulations in the PRC, and shall be subject to the administration and regulation of the PRC banking regulatory authorities. Since our Group has a representative office in Beijing, we are required to comply with the relevant administration and regulation of the China Banking Regulatory Commission despite our Group does not have any operations in the PRC.

Pursuant to the approval certificate issued by the China Banking Regulatory Commission in March 2006, the Beijing Office is permitted to conduct non-operational activities on behalf of KVB NZ, such as consultation, communication and market research services in relation to the forex trading business of KVB NZ. In addition, the Beijing Office has assisted our Group in other non-operational activities including sourcing souvenirs for our Group's valued clients and providing secretarial and hospitality assistance to our employees visiting Beijing. Our Directors have confirmed that the Beijing Office does not serve nor refer orders from clients in the PRC.

We expect that RMB may eventually be open to the global forex market. Such expectation is supported by policies and practices adopted by the People's Bank of China these years for a more internationalised currency. In addition, we believe that the establishment of a long standing representative office in the PRC may facilitate our application to extend our operations to the PRC as and when the PRC laws, rules and regulations allow foreign enterprise to conduct leveraged forex trading business in the PRC. On this basis, we have set up the Beijing Representative Office to provide us with the latest policy research, regulatory news updates and opportunities for liaison with regulatory bodies to facilitate our strategic decision making. In addition, the Beijing Office has also assisted us in attending local discussion seminars and gathering the latest market information as and when required. There was no forex transaction conducted through the Beijing Office during the Track Record Period and up to the Latest Practicable Date.

KVB AU and its branches

KVB AU

KVB AU, an indirect wholly owned subsidiary of our Company, was incorporated in Australia on 26 August 2002. Upon its incorporation, 10 ordinary shares in the capital of KVB AU were allotted and issued to KVB NZ and credited as fully paid for an aggregate consideration of AUD10.

HISTORY AND REORGANISATION

On 21 February 2003, 50,000 redeemable preference shares in the capital of KVB AU were allotted and issued to KVB NZ and credited as fully paid for an aggregate consideration of AUD50,000.

On 1 April 2003, KVB AU allotted and issued 1,000,000 redeemable preference shares in its capital to KVB NZ as fully paid for an aggregate consideration of AUD1,000,000.

On 13 December 2005, KVB AU redeemed the 1,050,000 redeemable preference shares in its capital held by KVB NZ at AUD1 per redeemable preference share. On the same day, KVB AU allotted and issued 1,050,000 ordinary shares in its capital to KVB NZ and credited as fully paid for an aggregate consideration of AUD1,050,000. As a result, KVB NZ held 1,050,010 ordinary shares in KVB AU.

On 20 December 2005, KVB NZ transferred its 1,050,010 ordinary shares in the capital of KVB AU to KVB Holdings for an aggregate consideration of AUD1,050,010, which was equivalent to the share capital transferred. As a result, KVB AU became a wholly owned subsidiary of KVB Holdings. Such transfer was properly and legally completed and settled.

To segregate two lines of business into separate entities, the money changing business of KVB AU was transferred to KVB FX Pty (a member of the Non-listed Group) on 1 January 2010 for nil consideration based on nil net book value by way of intra-group transfer of balances which was satisfied by a corresponding debit/credit in its account on a dollar to dollar basis. No resulting gain or loss arose from this transfer.

Pursuant to a sale and purchase agreement dated 4 May 2012, our Company acquired the entire issued share capital of KVB AU from KVB Holdings, and directed that such shares in the capital of KVB AU be held by LXL Capital III, for a consideration being the net asset value of KVB AU as at 31 December 2011 which was satisfied by LXL Capital III crediting 100 nil paid shares in LXL Capital III allotted and issued to LXL Capital I as fully paid at a premium at the direction of KVB Holdings. Such transfer was properly and legally completed and settled on 4 May 2012. As a result, KVB AU became a direct wholly owned subsidiary of LXL Capital III and an indirect wholly owned subsidiary of our Company.

Upon its incorporation in 2002, KVB AU established its branch office in Sydney where it first conducted business in Australia. In 2005, KVB AU extended its business and established a branch office in Melbourne providing services different from that of its Sydney branch office. Set out below is the information in connection with the two branch offices of KVB AU:

KVB AU Sydney branch

The Sydney branch of KVB AU acts as a sales and distribution division for both our leveraged forex and transactional forex businesses. The business operates under a licence from the ASIC, initially beginning forex transactions in 2003 and adding leveraged forex business under the ForexStar trading platform later that year. The branch expanded its business to include securities trading referral services in 2009 with the aim that KVB AU becomes a full service financial services company offering a range of products in the capacity as an introducing agent. Since 2009, the branch has been acting as

HISTORY AND REORGANISATION

introducing agent referring clients to KVB NZ and KVB Securities for securities trading. KVB AU has not been engaged in the provision of securities brokerage services and therefore does not compete with the Non-listed Group.

The Sydney branch operates from a centrally located office in the Citigroup Centre, with a staff force of seven personnel as at the Latest Practicable Date.

KVB AU Melbourne branch

The Melbourne branch of KVB AU provided transactional forex services when it was opened in 2005. This office is a sales and distribution centre with all accounting, compliance and payments functions handled from the Sydney branch. The Melbourne branch was centrally located at 120 Collins Street with a staff force of one personnel as at the Latest Practicable Date.

KVB HK

KVB HK, an indirect wholly owned subsidiary of our Company, was incorporated in Hong Kong on 3 June 2002 with an initial authorised share capital of HK\$1,000,000 divided into 1,000,000 shares of HK\$1.00 each. 200,000 subscriber shares were allotted and issued on 10 June 2002, 90% of which were held by Mr. Li and 10% of which were held by the late Ms. Tsui.

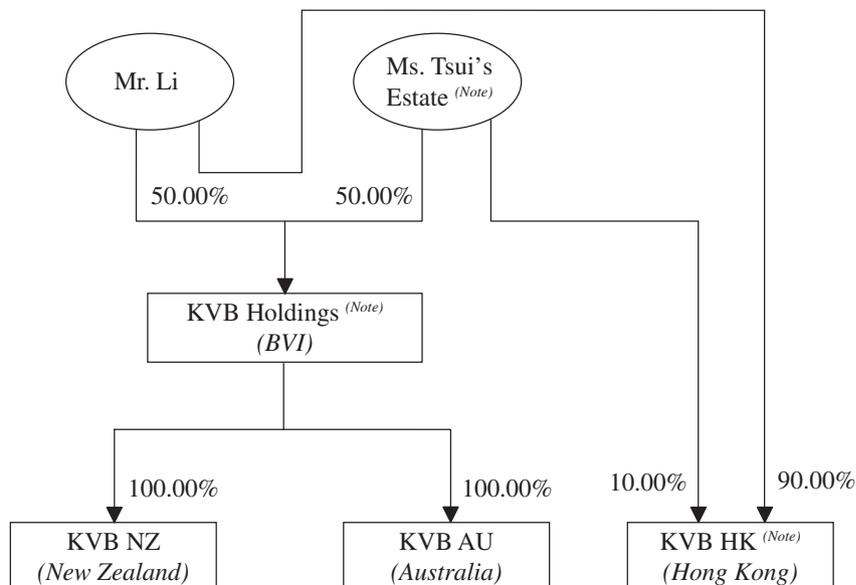
Pursuant to a written resolution of the shareholders of KVB HK dated 8 June 2004, the authorised share capital of KVB HK was increased from HK\$1,000,000 to HK\$100,000,000 by the creation of additional 99,000,000 ordinary shares of HK\$1.00 each in the capital of KVB HK. On the same day, a further 89,820,000 shares in the capital of KVB HK were allotted and issued to Mr. Li at nominal value and a further 9,980,000 shares in the capital of KVB HK were allotted and issued to the late Ms. Tsui at nominal value.

Pursuant to a sale and purchase agreement dated 4 May 2012, our Company agreed to acquire the entire issued share capital of KVB HK from Mr. Li and Ms. Tsui's Estate and directed that such shares in the capital of KVB HK be held by LXL Capital IV for a consideration being the net asset value of KVB HK as at 31 December 2011 which was satisfied by LXL Capital IV crediting 100 nil paid shares in the capital of LXL Capital IV allotted and issued to LXL Capital I as fully paid at a premium at the directions of Mr. Li and the Administrators on behalf of Ms. Tsui's Estate. Such transfer was properly and legally completed and settled on 7 May 2012. As a result, KVB HK became a direct wholly owned subsidiary of LXL Capital IV and an indirect wholly owned subsidiary of our Company.

HISTORY AND REORGANISATION

REORGANISATION

The following chart sets out our shareholding and corporate structure immediately prior to the Reorganisation:



Note: According to section 4(3) of the IEO and the private international law rules of the BVI, Mr. Li shall be entitled to 50% and the three children of Mr. Li and the late Ms. Tsui (i.e. Mr. Li Yeuk Kuk Dennis, Ms. Li Yi Dan and Mr. Li Dong Zheng) shall be entitled to share the remaining 50% of the shareholdings held by Ms. Tsui's Estate in KVB Holdings and KVB HK in equal shares.

The Reorganisation involves the following steps:

On 9 November 2010, our Company was incorporated in the Cayman Islands with an authorised share capital of HK\$10,000 divided into 1,000,000 Shares of HK\$0.01 each. On the same day, our Company allotted and issued one Share, fully paid at par, to Codan Trust Company (Cayman) Limited, which was transferred to Mr. Li on the same day. On 4 May 2012, the one Share held by Mr. Li was transferred to KVB Holdings. Such transfer was properly and legally completed and settled.

On 8 April 2011, LXL Capital I was incorporated in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On the same day, 100 shares in the capital of LXL Capital I were allotted and issued, credited as fully paid at par, to our Company.

On 8 April 2011, LXL Capital II was incorporated in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On the same day, 100 nil paid shares in the capital of LXL Capital II were allotted and issued to LXL Capital I.

On 8 April 2011, LXL Capital III was incorporated in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On the same day, 100 nil paid shares in the capital of LXL Capital III were allotted and issued to LXL Capital I.

HISTORY AND REORGANISATION

On 8 April 2011, LXL Capital IV was incorporated in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On the same day, 100 nil paid shares in the capital of LXL Capital IV were allotted and issued to LXL Capital I.

Pursuant to a sale and purchase agreement dated 4 May 2012, our Company acquired the entire issued share capital of KVB NZ from KVB Holdings, and directed that such shares in the capital of KVB NZ be held by LXL Capital II for a consideration being the net asset value of KVB NZ as at 31 December 2011 which was satisfied by LXL Capital II crediting 100 nil paid shares in the capital of LXL Capital II allotted and issued to LXL Capital I as fully paid at a premium at the direction of KVB Holdings. Such transfer was properly and legally completed and settled on 4 May 2012. As a result, KVB NZ became a direct wholly owned subsidiary of LXL Capital II and an indirect wholly owned subsidiary of our Company. Such transfer was approved, ratified and confirmed by the Administrators on 10 September 2012 and as confirmed by the legal advisers to our Company as to BVI law, no person shall be able to challenge such transfer after being ratified and confirmed by the Administrators.

Pursuant to a sale and purchase agreement dated 4 May 2012, our Company acquired the entire issued share capital of KVB AU from KVB Holdings, and directed that such shares in the capital of KVB AU be held by LXL Capital III for a consideration being the net asset value of KVB AU as at 31 December 2011 which was satisfied by LXL Capital III crediting 100 nil paid shares in LXL Capital III allotted and issued to LXL Capital I as fully paid at a premium at the direction of KVB Holdings. Such transfer was properly and legally completed and settled on 4 May 2012. As a result, KVB AU became a direct wholly owned subsidiary of LXL Capital III and an indirect wholly owned subsidiary of our Company. Such transfer was approved, ratified and confirmed by the Administrators on 10 September 2012 and as confirmed by the legal advisers to our Company as to BVI law, no person shall be able to challenge such transfer after being ratified and confirmed by the Administrators.

Pursuant to a sale and purchase agreement dated 4 May 2012, our Company agreed to acquire the entire issued share capital of KVB HK from Mr. Li and Ms. Tsui's Estate and directed that such shares in the capital of KVB HK be held by LXL Capital IV for a consideration being the net asset value of KVB HK as at 31 December 2011 which was satisfied by LXL Capital IV crediting 100 nil paid shares in the capital of LXL Capital IV allotted and issued to LXL Capital I as fully paid at a premium at the directions of Mr. Li and the Administrators on behalf of Ms. Tsui's Estate. Such transfer was properly and legally completed and settled on 7 May 2012. As a result, KVB HK became a direct wholly owned subsidiary of LXL Capital IV and an indirect wholly owned subsidiary of our Company. As advised by the legal advisers to our Company as to Hong Kong law, the transfer of the entire issued share capital of KVB HK was completed after the Letter of Administration had been granted by the Court of Hong Kong in February 2012 and such transfer was legal and valid pursuant to Hong Kong law.

On 17 May 2012, the authorised share capital of our Company was increased from HK\$10,000 divided into 1,000,000 Shares to HK\$1,000,000 divided into 100,000,000 Shares. On the same day, our Company allotted and issued 9,054,399 Shares credited as fully paid to KVB Holdings. KVB Holdings then held 9,054,400 Shares, representing the entire issued share capital of our Company.

HISTORY AND REORGANISATION

On 23 May 2012, pursuant to the subscription agreement dated 17 May 2012 entered into between our Company and the Pre-Listing Investors, our Company allotted and issued 945,600 Shares in aggregate, representing approximately 9.46% of the issued share capital of our Company as at completion of the Pre-Listing Investments, to the Pre-Listing Investors for an aggregate consideration of HK\$57,000,000. For details of the Pre-Listing Investments, please refer to the paragraph headed “Pre-Listing Investments” in this section.

Upon completion of the Pre-Listing Investments, each of KVB Holdings, Calypso and Silverlake held 9,054,400, 643,008 and 302,592 Shares, representing approximately 90.54%, 6.43% and 3.03% of the issued share capital of our Company, respectively.

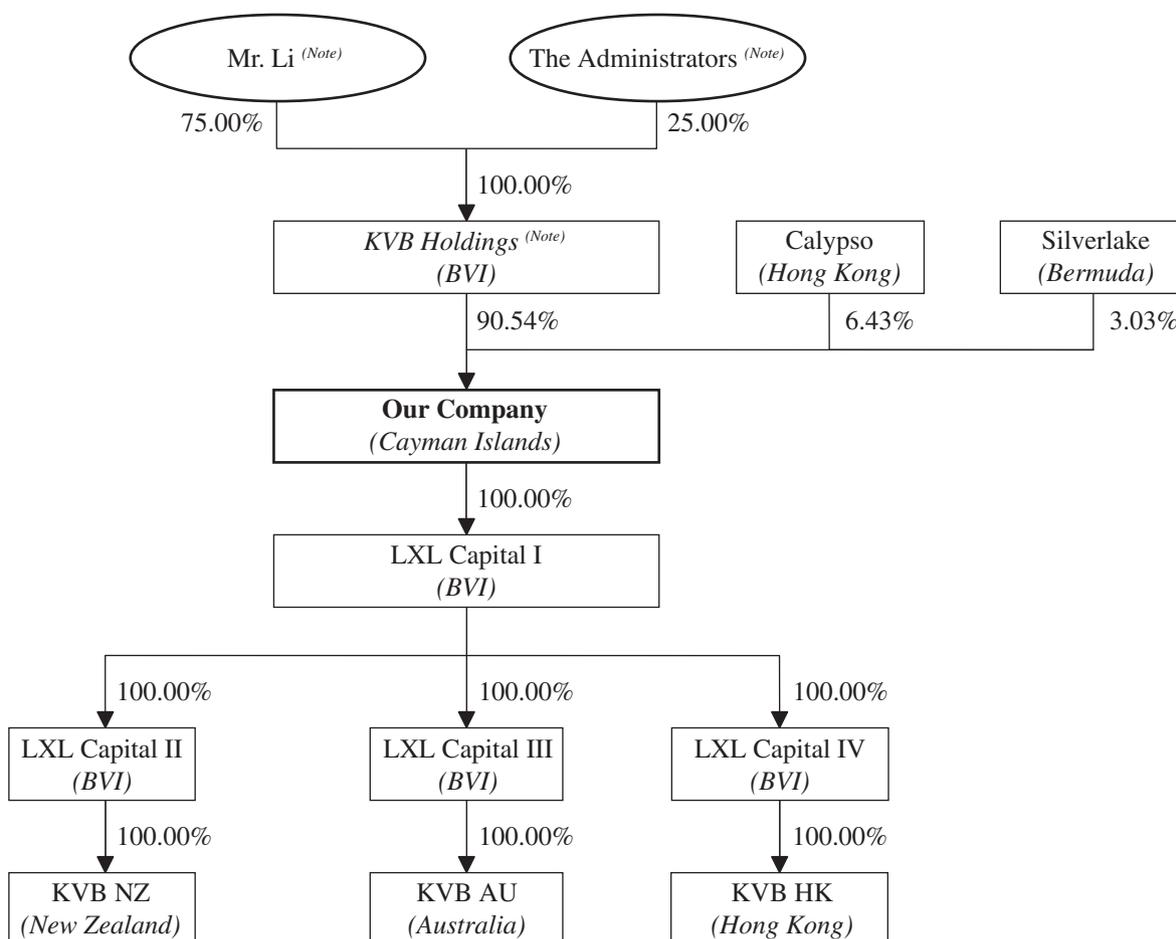
As advised by the legal advisers to our Company as to Hong Kong law, the subscription agreement has been duly executed and constitutes valid and binding obligations of each of the parties thereto, and the transactions contemplated thereunder are legal and enforceable according to applicable laws, rules and regulations in Hong Kong. As advised by the legal advisers to our Company as to BVI law, the provisions of the subscription agreement do not in any way involve the shares of KVB Holdings and even though the interest of KVB Holdings in the Shares was effectively diluted, its execution raises no question about the powers of the Administrators in relation thereto.

On 18 December 2012, the authorised share capital of our Company was further increased from HK\$1,000,000 divided into 100,000,000 Shares to HK\$40,000,000, divided into 4,000,000,000 Shares.

Upon completion of the Reorganisation but before the Placing, KVB Holdings and the Pre-Listing Investors shall hold the entire issued share capital of our Company.

HISTORY AND REORGANISATION

The following chart sets out our shareholding and corporate structure as at the Latest Practicable Date:



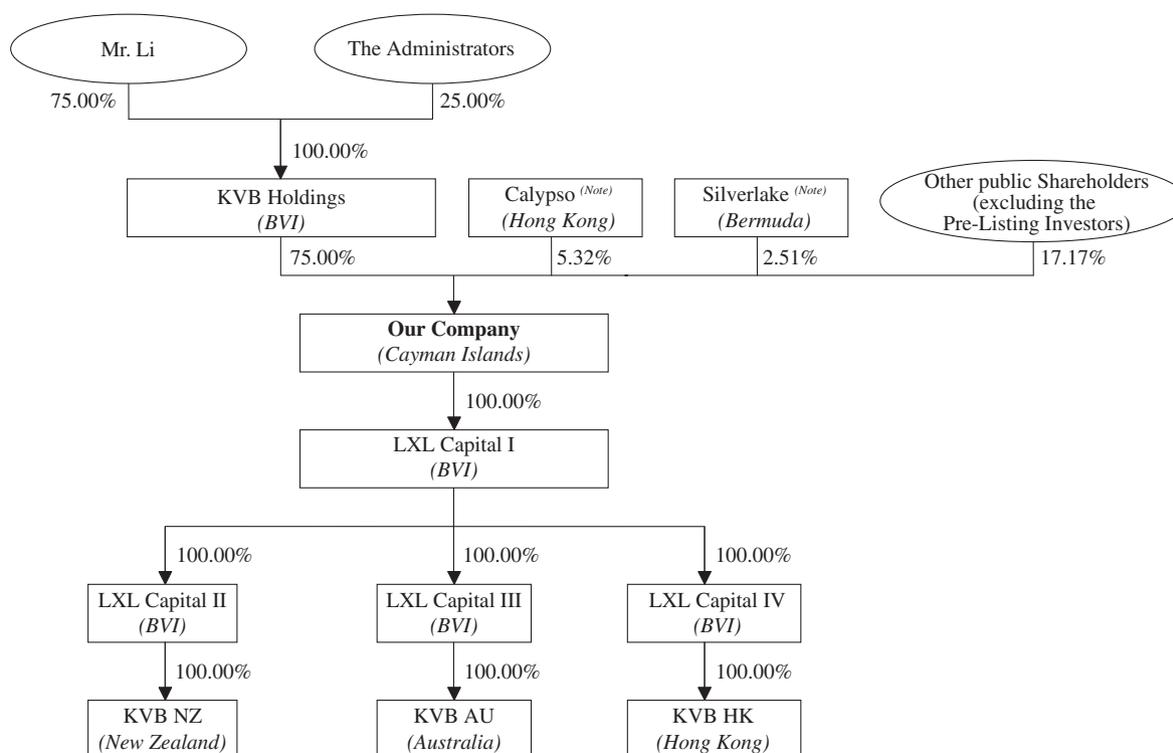
Note: According to section 4(3) of the IEO and the private international law rules of the BVI, Mr. Li shall be entitled to 50% and the three children of Mr. Li and the late Ms. Tsui (i.e. Mr. Li Yeuk Kuk Dennis, Ms. Li Yi Dan and Mr. Li Dong Zheng) shall be entitled to share the remaining 50% of the shareholding held by Ms. Tsui's Estate in KVB Holdings in equal shares. As advised by the legal advisers to our Company as to BVI law, under the private international law rules of the BVI, both testate and intestate succession to movables is governed as a matter of common law by the law of domicile of the deceased at death. The shares of KVB Holdings are classified as movables for the purpose of these rules. Accordingly, Hong Kong law will govern succession to the shares of KVB Holdings. As such, the entitlement to the shares of KVB Holdings in the ratio of 50% to Mr. Li and 50% to the children of Mr. Li and the late Ms. Tsui is prescribed by the IEO. On 30 August 2012, the Administrators transferred 25% of the issued share capital of KVB Holdings in Ms. Tsui's Estate to Mr. Li. Accordingly, Mr. Li became the legal and beneficial issued share capital of 75% of the issued shareholding of KVB Holdings. The remaining 25% of the issued share capital of KVB Holdings is being held in trust by the Administrators for the three children of Mr. Li and the late Ms. Tsui.

As advised by the legal advisers to our Company as to Hong Kong law, the 25% issued share capital of KVB Holdings transferred from the Administrators to Mr. Li on 30 August 2012 was in accordance with the prescribed ratio of the IEO and was in compliance with all applicable laws, rules and regulations in Hong Kong. The legal

HISTORY AND REORGANISATION

advisers to our Company as to BVI law are of the view that the transfer of 25% issued share capital of KVB Holdings was executed after the grant of the Letter of Administration sealed by the High Court of Justice of the BVI on 16 July 2012 and the execution and delivery of such transfer was in compliance with all applicable laws, rules and regulations in the BVI and approval regarding the transfer from the Administrators has been obtained.

The following chart sets out our shareholding and corporate structure immediately after completion of the Capitalisation Issue and the Placing (without taking into account any Shares which may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme):



Note: Calypso and Silverlake will be regarded as public Shareholders.

PRE-LISTING INVESTMENTS

The investments

On 17 May 2012, the Pre-Listing Investors entered into a subscription agreement with our Company, pursuant to which our Company has agreed to issue and the Pre-Listing Investors have agreed to subscribe for 945,600 Shares in aggregate, representing approximately 9.46% of the issued share capital of our Company as at completion of the Pre-Listing Investments, for an aggregate consideration of HK\$57,000,000.

HISTORY AND REORGANISATION

The consideration was determined after arm's length negotiation with reference to the combined profits of KVB NZ, KVB AU and KVB HK for the financial year ended 31 December 2011. Our Directors have confirmed that the subscription agreement with the Pre-Listing Investors was entered into on normal commercial terms. Our Directors believe that the introduction of the Pre-Listing Investors will strengthen our Shareholder base for the Listing and raise the net proceeds of the Placing for the future development of our Group.

The following table sets out a summary of the details of the Pre-Listing Investments:

	Calypso	Silverlake	Total
Amount of investment	HK\$38,760,000	HK\$18,240,000	HK\$57,000,000
Payment date of investment	23 May 2012	23 May 2012	N/A
Number of Shares subscribed	643,008	302,592	945,600
Shareholding in our Company as at completion of the Pre-Listing Investments (approximately)	6.43%	3.03%	9.46%
Investment cost per Share (approximately) ^(Note)	HK\$0.364	HK\$0.364	N/A
Discount to the Placing Price of HK\$0.452 per Placing Share (approximately) ^(Note)	19.47%	19.47%	N/A
Use of proceeds of the Pre-Listing Investments	General working capital	General working capital	N/A
Shareholding in our Company upon completion of the Placing (approximately) ^(Note)	5.32%	2.51%	7.83%

Note: The calculations are based on 106,525,000 Shares and 50,130,000 Shares to be held by Calypso and Silverlake, respectively, upon completion of the Capitalisation Issue and the Placing but without taking into account any Shares which may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme.

Completion of the Pre-Listing Investments took place on 23 May 2012. Pursuant to the terms of the subscription agreement, the Pre-Listing Investors do not enjoy any special rights in connection with the Pre-Listing Investments. Other than being our Shareholders holding an aggregate of 9.46% of the issued share capital of our Company upon completion of the Pre-Listing Investments, the Pre-Listing Investors and their respective ultimate beneficial owners are Independent Third Parties and the Shares held by the Pre-Listing Investors will be part of the public float for the purpose of Rule 11.23(7) of the GEM Listing Rules.

HISTORY AND REORGANISATION

Background of Calypso

Calypso is an investment holding company and an indirect wholly owned subsidiary of HNA Group Co., Ltd. (海航集團有限公司). HNA Group Co., Ltd. (together with its subsidiaries, the “**HNA Group**”) is one of the shareholders of certain listed companies including Hainan Airlines Company Limited and Xi’an Minsheng Group Company Limited. The HNA Group is a large multi-industry enterprise group engaged in a wide range of business sectors including air transportation, airport management, hotel, logistics, real estate, retail, tourism and other related industries. The HNA Group is indirectly owned as to approximately 70.25% by the Labour Union of Hainan Airlines Co., Ltd. (海南航空股份有限公司工會委員會), which is a labour union established in 2009 for the purpose of promoting and protecting the welfare and benefits of the employees of the HNA Group. To the best knowledge of our Directors and having made all reasonable enquiries, the HNA Group is not a state-owned enterprise. Other than being our Shareholder, Calypso and its ultimate beneficial owners are Independent Third Parties and have no past or present relationships with our Group, our Shareholders, Directors, senior management personnel, or any of their respective associates.

Background of Silverlake

Silverlake is an investment holding company which is held as to 80% by Mr. Goh Peng Ooi, 15% Mr. Li Lin and 5% by Mr. Kwang King Siong. Mr. Goh Peng Ooi, Mr. Li Lin and Mr. Kwang King Siong are engaged in information and communications technology industry. Other than being our Shareholder, Silverlake and its ultimate beneficial owners are Independent Third Parties and have no past or present relationships with our Group, our Shareholders, Directors, senior management personnel, or any of their respective associates.

Lock-up arrangement

Pursuant to the subscription agreement, the Pre-Listing Investors have undertaken to our Company, for a period of 12 months after the Listing, not to sell, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Shares which are beneficially interested by the Pre-Listing Investors upon the Listing.

On the basis that the Pre-Listing Investments were completed more than 180 clear days before the Listing Date and do not involve any convertible instruments, the Sponsor considers that the Pre-Listing Investments are in compliance with the Interim Guidance on Pre-IPO Investments announced by the Listing Committee of the Stock Exchange on 13 October 2010, the Guidance on Pre-IPO Investments announced by the Stock Exchange on 25 October 2012 and the Guidance on Pre-IPO Investments in Convertible Instruments announced by the Stock Exchange on 25 October 2012.

BUSINESS

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
Total	<u>155,242</u>	<u>100.0</u>	<u>123,222</u>	<u>100.0</u>

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

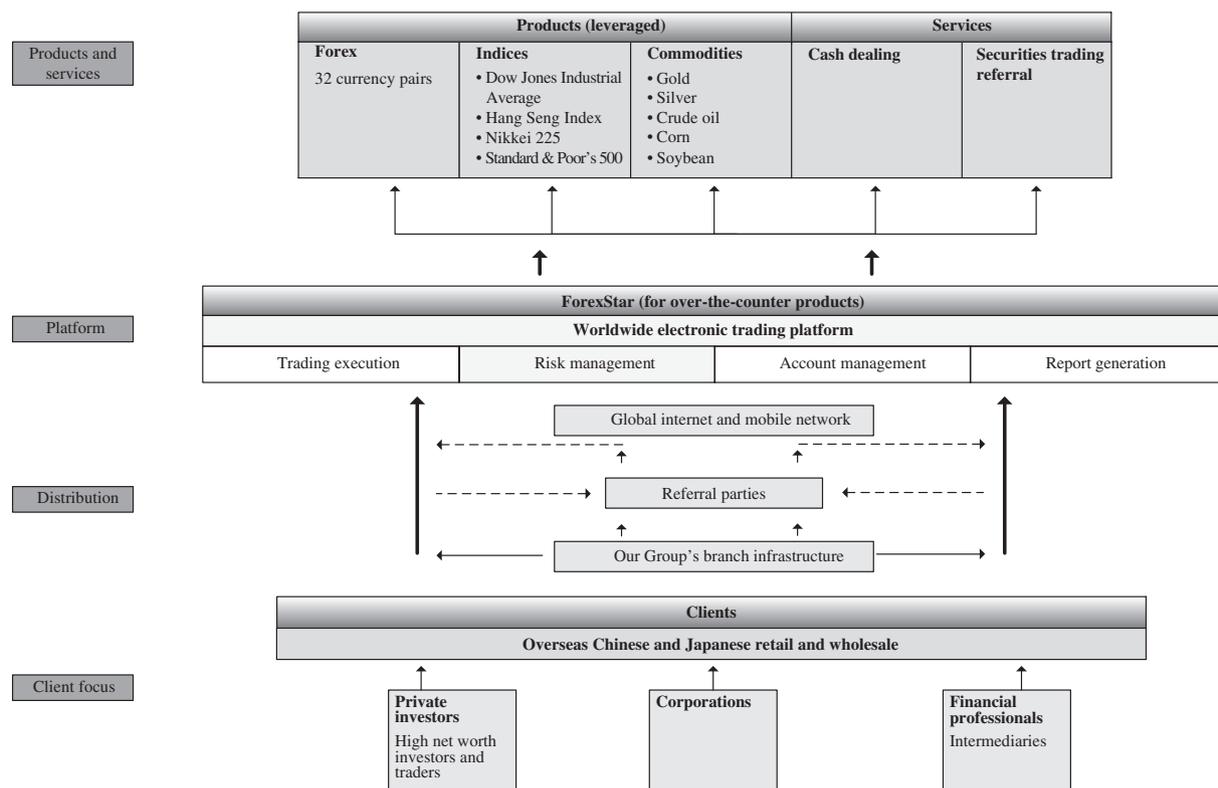
Our Group intends to pursue opportunities such as mergers with and acquisitions of suitable licensed financial institutions in other major cities around the world to complement our existing business and operation and increase our market share. Our Directors believe that successful mergers or acquisitions 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
Cash dealing	12,602	8.1	9,310	7.5
Other	35,114	22.6	26,961	21.9
Total	<u>155,242</u>	<u>100.0</u>	<u>123,222</u>	<u>100.0</u>

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:

$$\text{NZD}100,000 \times 1 \times (0.8200 - 0.8000) = \text{US}\$2,000$$

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

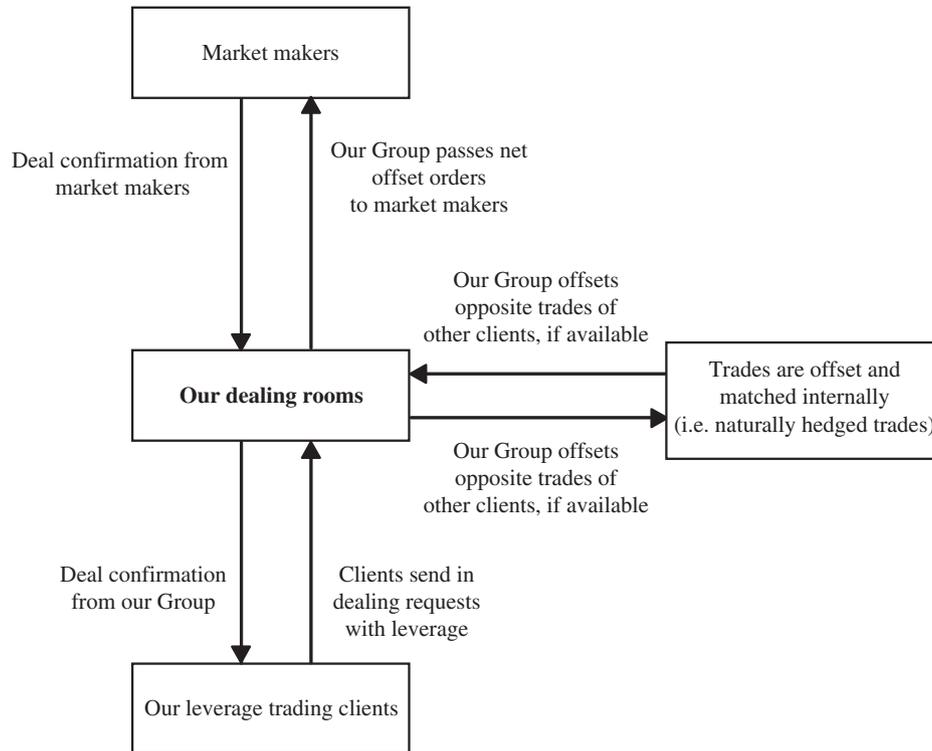
Other products offered by our Group including indices and commodities work in the same way as forex products.

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.

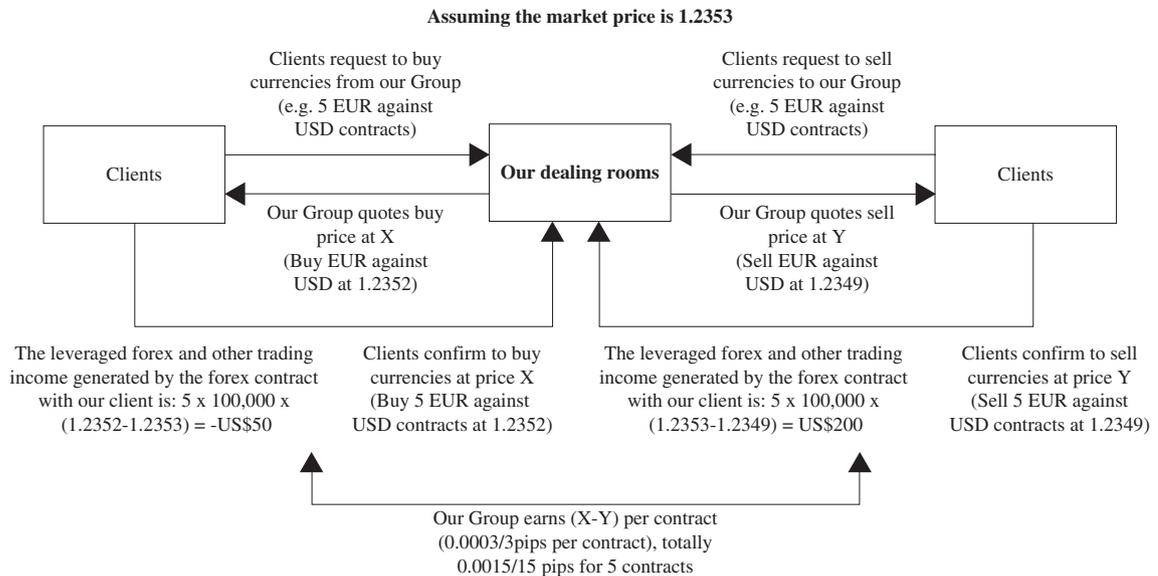
BUSINESS

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.

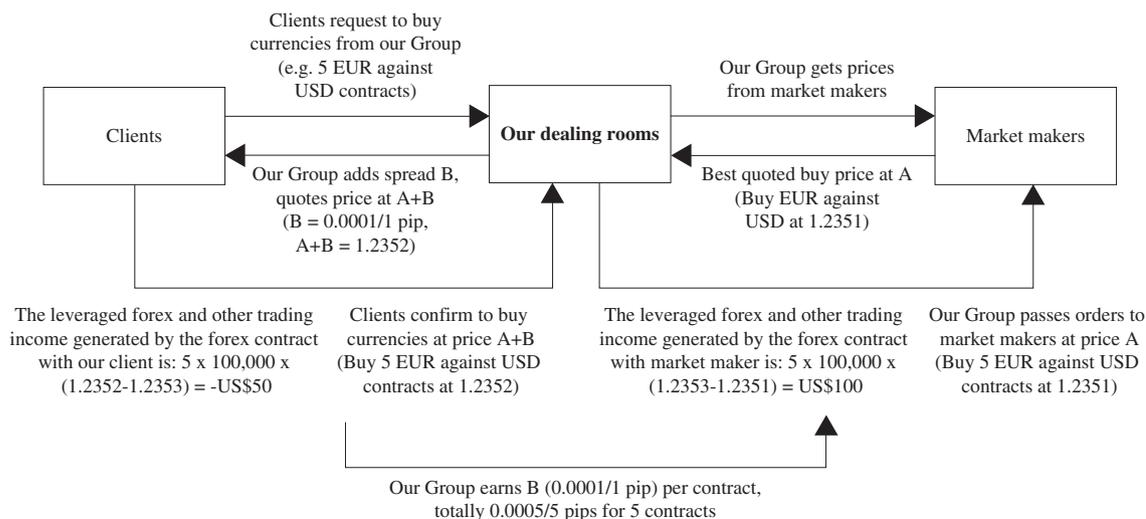
In the above example, through offsetting the relevant buy and sell positions of our clients, our Group is capable of securing a total income of 15 pips on five EUR100,000 contracts or US\$150 from trades with our clients.

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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:

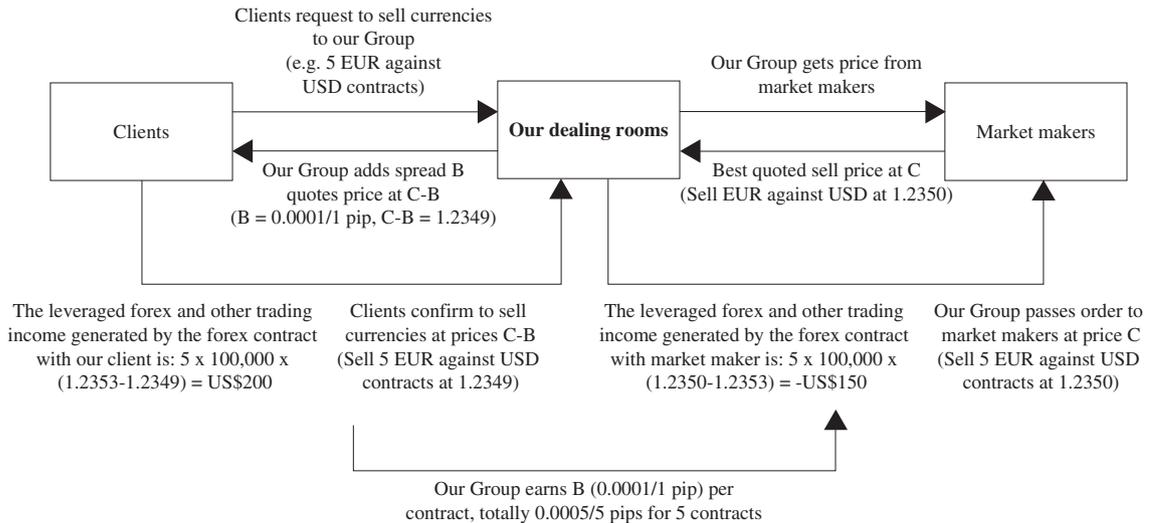
(a)	Debit	Leveraged forex and other trading income (unrealised)	US\$50
	Credit	Derivative financial liabilities	US\$50
(b)	Debit	Derivatives financial assets	US\$100
	Credit	Leveraged forex and other trading income (unrealised)	US\$100

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

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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.

BUSINESS

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.

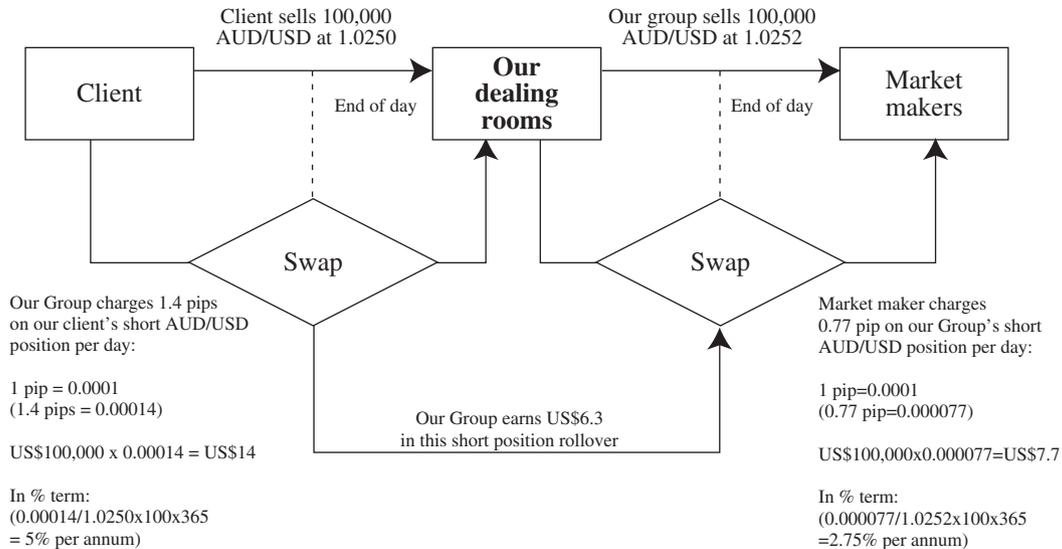
Notwithstanding the difference of income in the natural hedge strategy and the market maker strategy, our Directors consider that the primary responsibility of our dealers is to monitor and minimise our net risk exposure but not to optimise the profitability by differentiating the application of different 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.

BUSINESS

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.

BUSINESS

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:

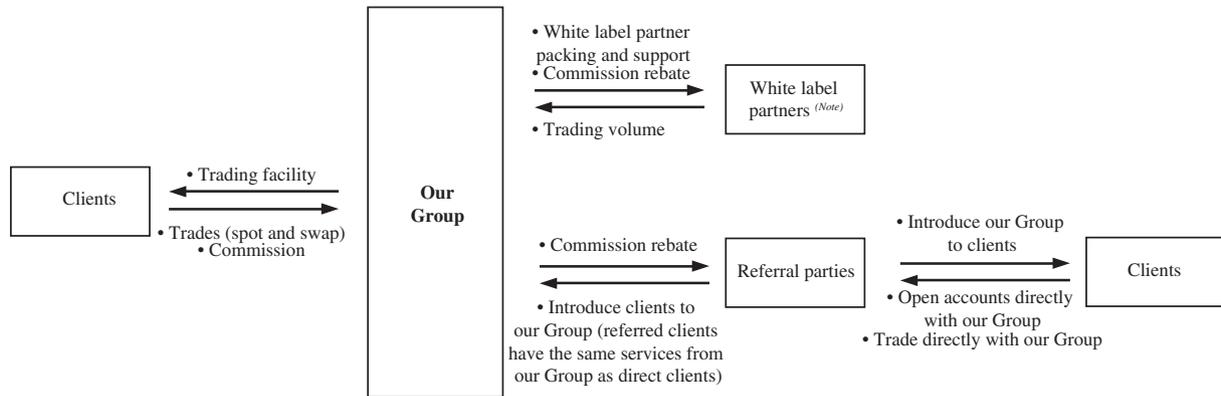
	Year ended 31 December			
	2011	<i>% of trading</i>	2012	<i>% of trading</i>
	<i>US\$' million</i>	<i>volume</i>	<i>US\$' million</i>	<i>volume</i>
Currency pairs	39,580	60.3%	38,821	50.4%
Indices	2	0.0%	1	0.0%
Commodities	26,015	39.7%	38,148	49.6%
	<u>65,597</u>	<u>100.0%</u>	<u>76,970</u>	<u>100.0%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

	Year ended 31 December	
	2011	2012
	<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:

	Year ended 31 December			
	2011		2012	
	<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 ^(Note) 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 ^(Note)	Active direct clients	Active referred clients	Virtual accounts established through the Japanese white label partner ^(Note)
Trading volume <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
Total	549	2,057	119	405	3,401	47
Number of transactions						
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
Total	549	2,057	119	405	3,401	47

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 ^(Note) 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 ^(Note)	30,397	2,781
Total	1,030,471	780,585

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.

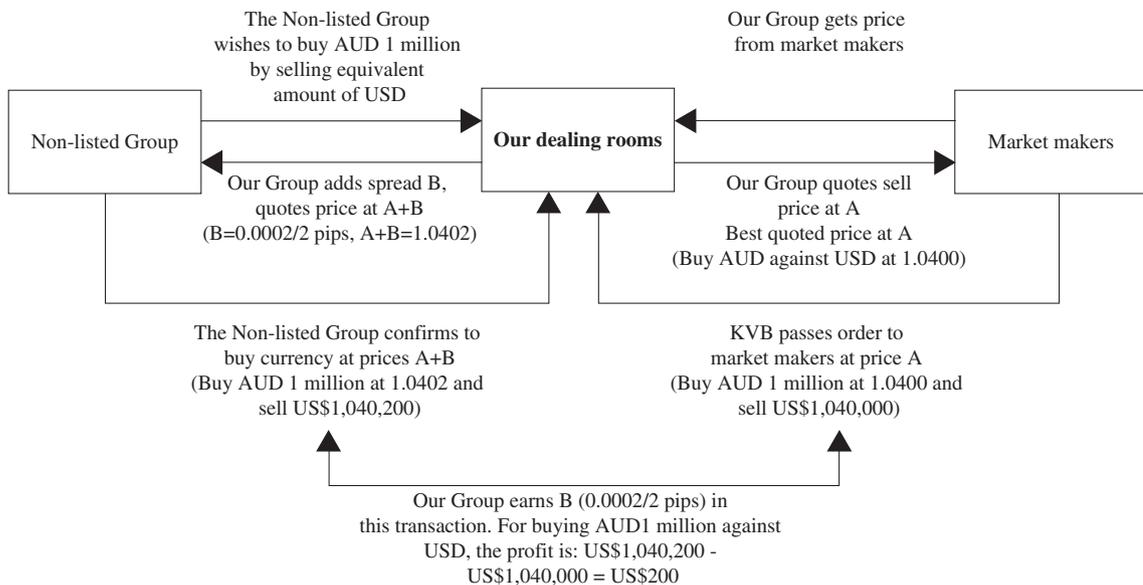
BUSINESS

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 AUD 1 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 AUD 1 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 AUD 1 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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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.

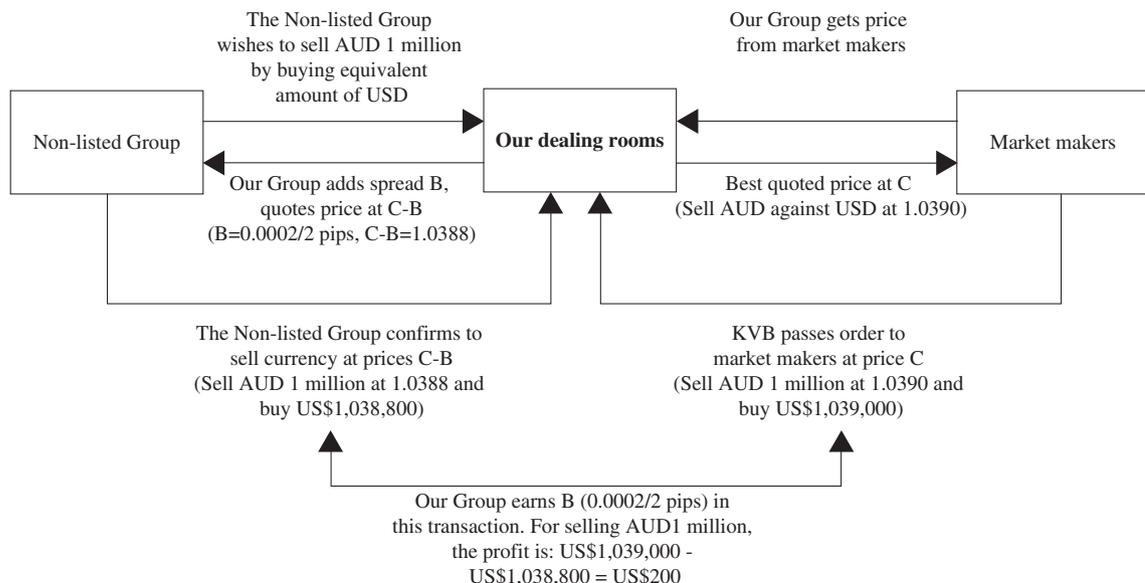
Day 2 The accounting entries made on day 1 are reversed.

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.

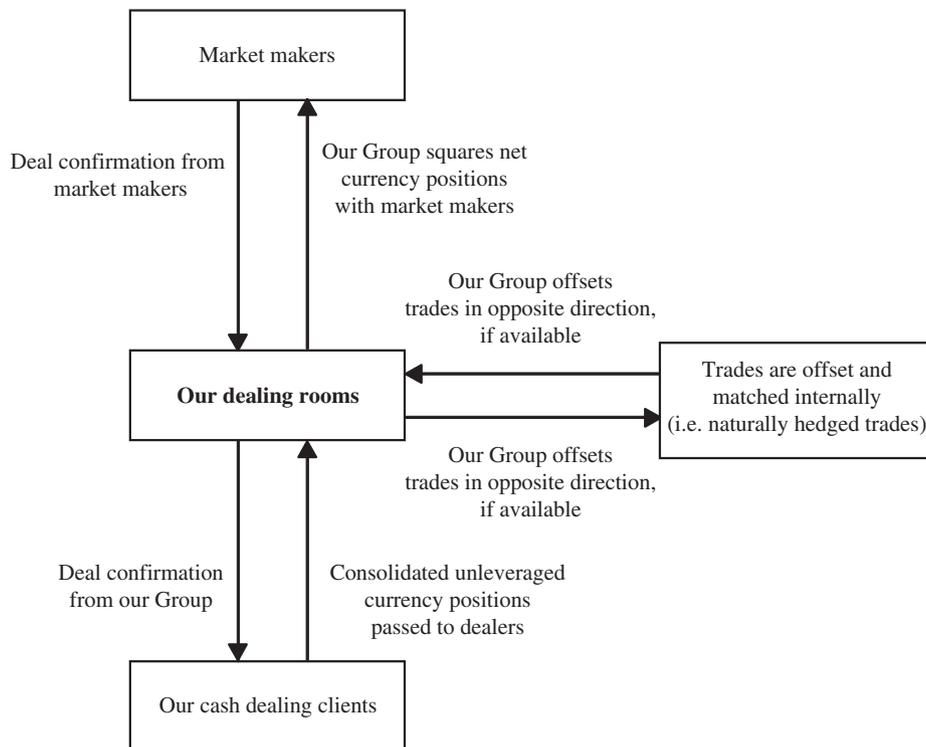
The Non-listed Group requests to sell currency



BUSINESS

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

	Leveraged forex and other trading business	Cash dealing business
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.

BUSINESS

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

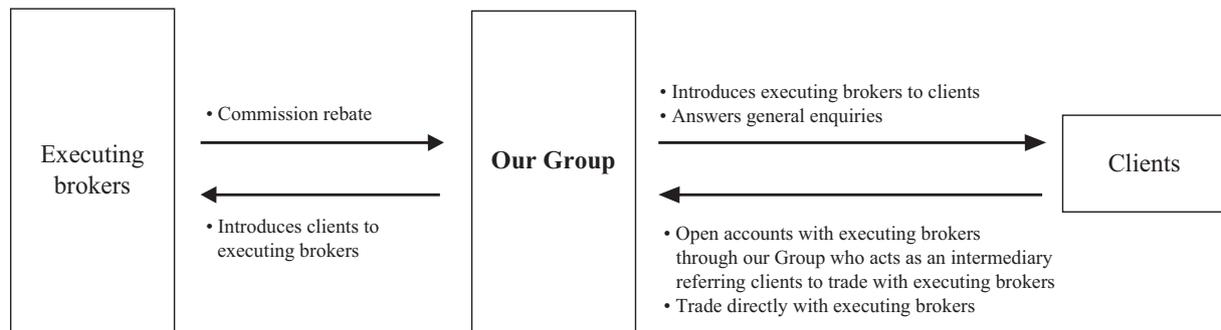
In addition to our core business, we provide securities trading referral services through which we refer our clients interested in trading securities to executing brokers. The client services agreements which we entered into with our clients with respect to securities trading referral services outline 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

BUSINESS

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.

BUSINESS

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.

BUSINESS

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%
Total	<u>100.0%</u>	<u>100.0%</u>

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:

	Winter time (New Zealand time)	Summer time (New Zealand time)
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 ^(Note 1)
Commencement date	Immediate	Immediate	No more than seven days before the relevant period end date
Expiry date	Open until close	Contract value date	No more than seven days after the relevant period end date ^(Note 2)
Notional amount of contract	Notional value of contracts based on settlement currency	Nil ^(Note 3)	Approximately HK\$2,161 million (as at 31 December 2011) Approximately HK\$1,892 million (as at 31 December 2012)
Cap on gain	Unlimited (offset by loss to clients)	Swap income	Nil
Maximum exposure	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)
Resulting gain/loss	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.

Our products	Long/(short) positions
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.

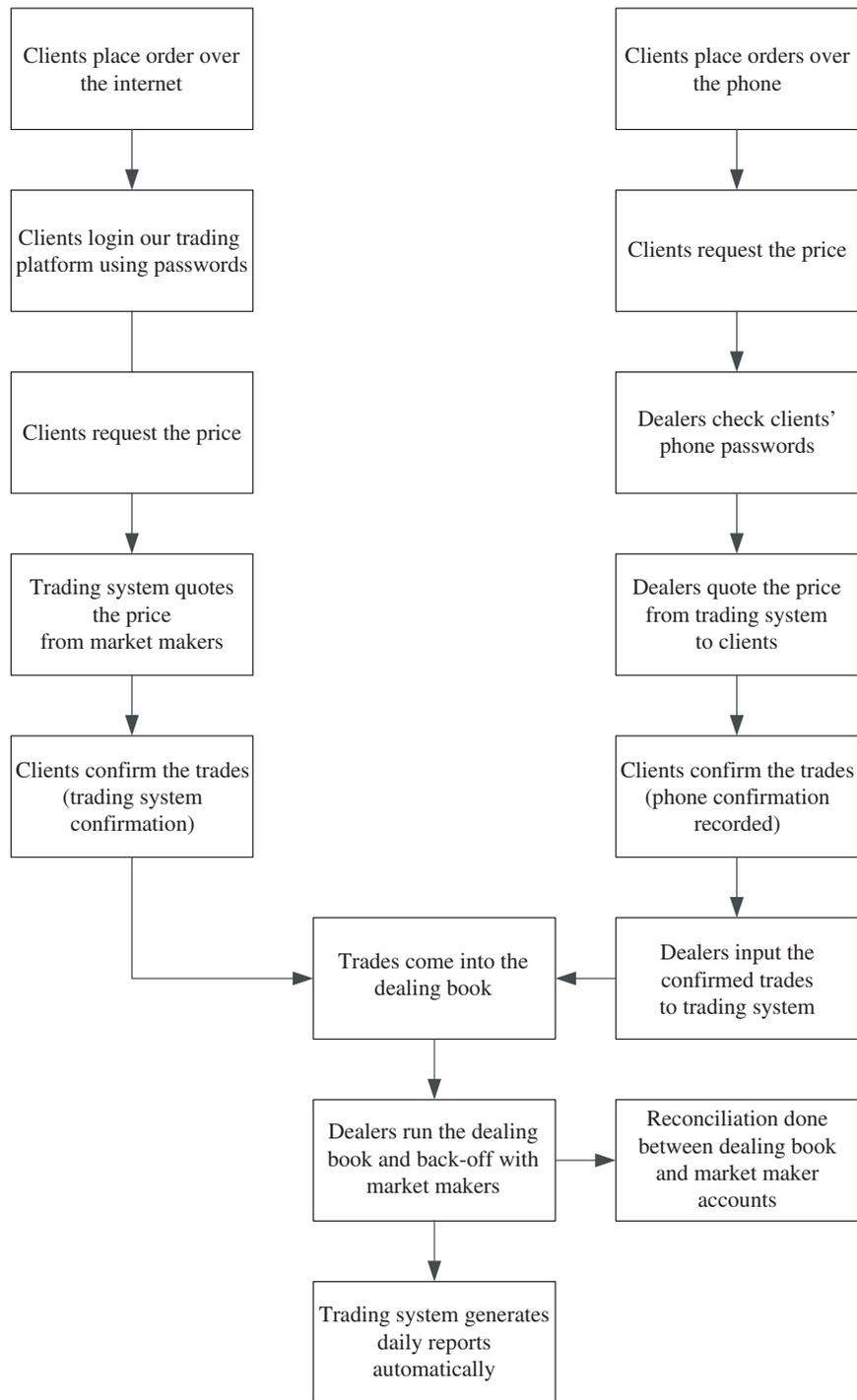
Settlement

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.

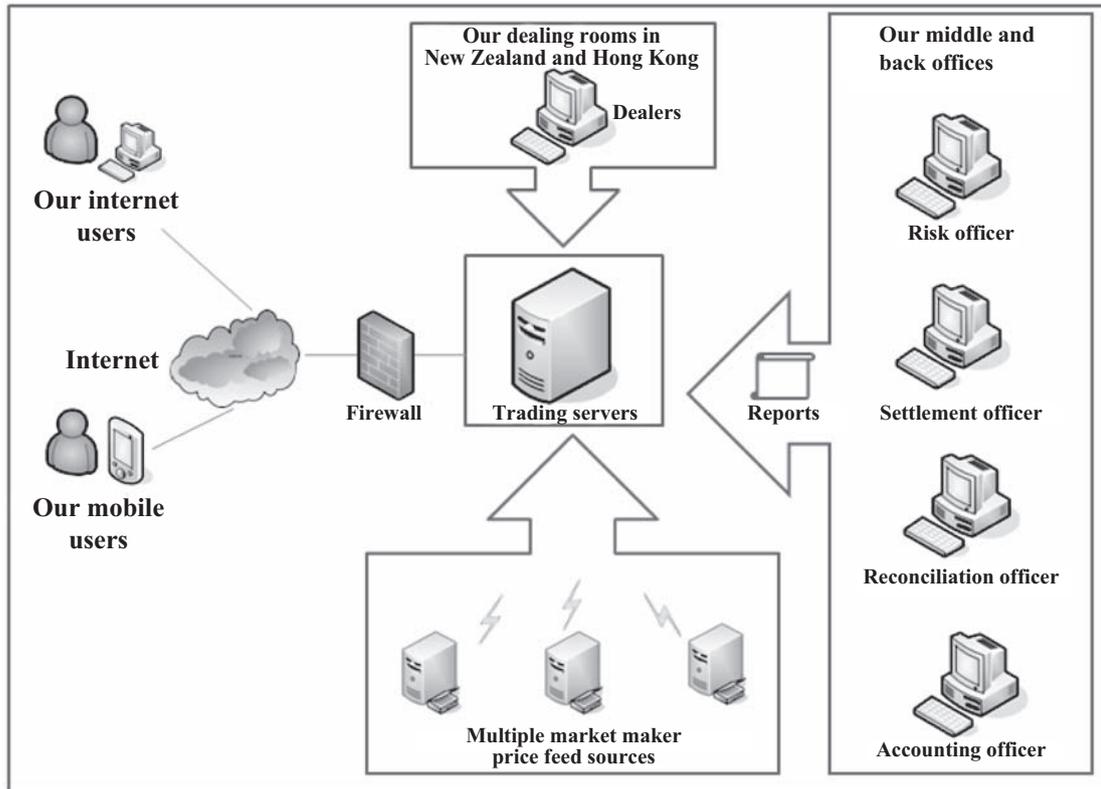
Backbone structure

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 ^(Note), 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

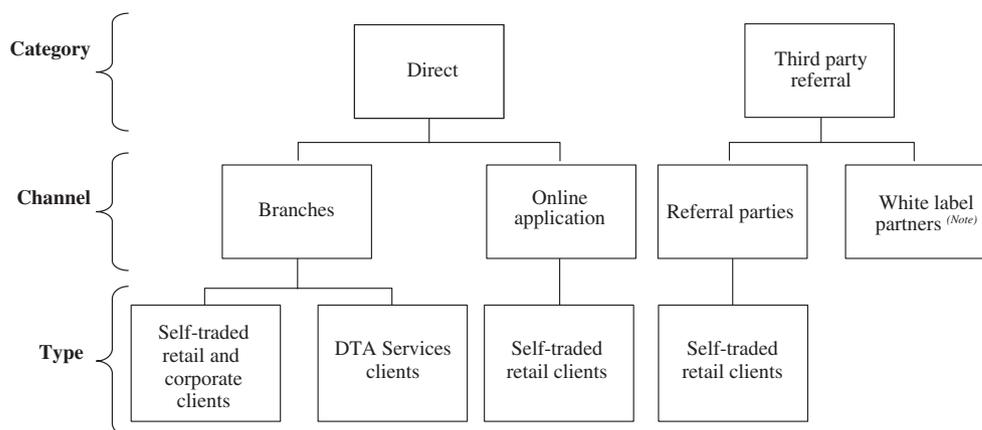
We organise seminars in New Zealand and Australia to promote our products and services as well as arouse public awareness on investment in leveraged trading. Our seminars are designed to serve dual purposes of educating the public as well as promoting our brand.

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	(%)
Number of referral parties:				
individual referral parties	109	94.8	615	99.0
corporate referral parties	6	5.2	6	1.0
Total number of referral parties	115	100.0	621	100.0

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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>	
Trading volume of our clients referred by (approximately):				
individual referral parties	39,811	60.6	51,597	67.0
corporate referral parties	38	0.1	257	0.4
Trading volume of referral parties (all being individuals) who traded directly with our Group as our direct clients (approximately)				
	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>	
Estimated income generated by our clients referred by (approximately):				
individual referral parties	65,240	60.7	58,321	67.1
corporate referral parties	60	0.1	291	0.3
Estimated income generated by referral parties (all being individuals) who traded directly with our Group as our direct clients (approximately)				
	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

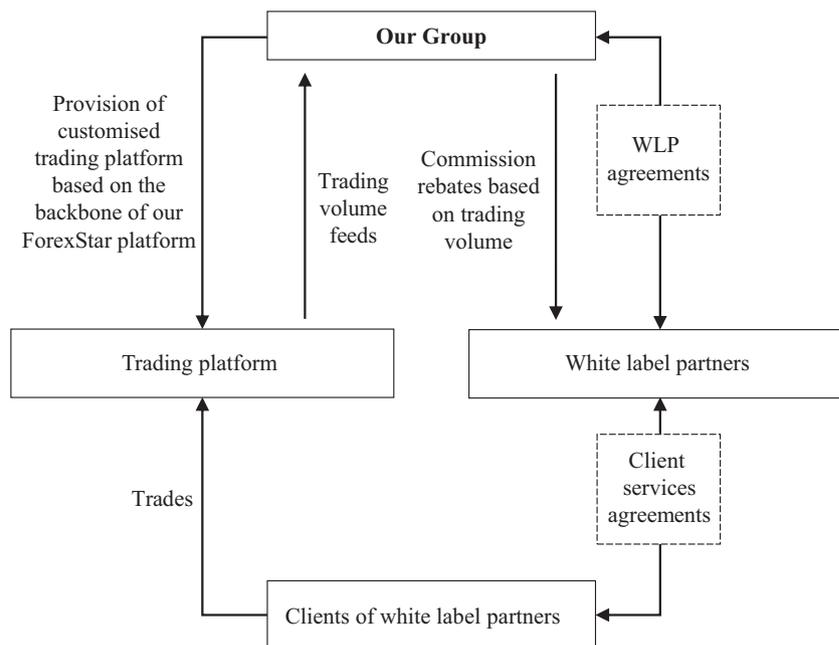
WLP was a relatively novel income channel of our Group. Leveraging on the advanced technology know-how, details of which are set out in the paragraph headed “Our competitive strengths” in this section, our Group saw fit to make full use of our established trading platform to maximise our income by offering 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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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:

	Year ended 31 December			
	2011		2012	
	<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.

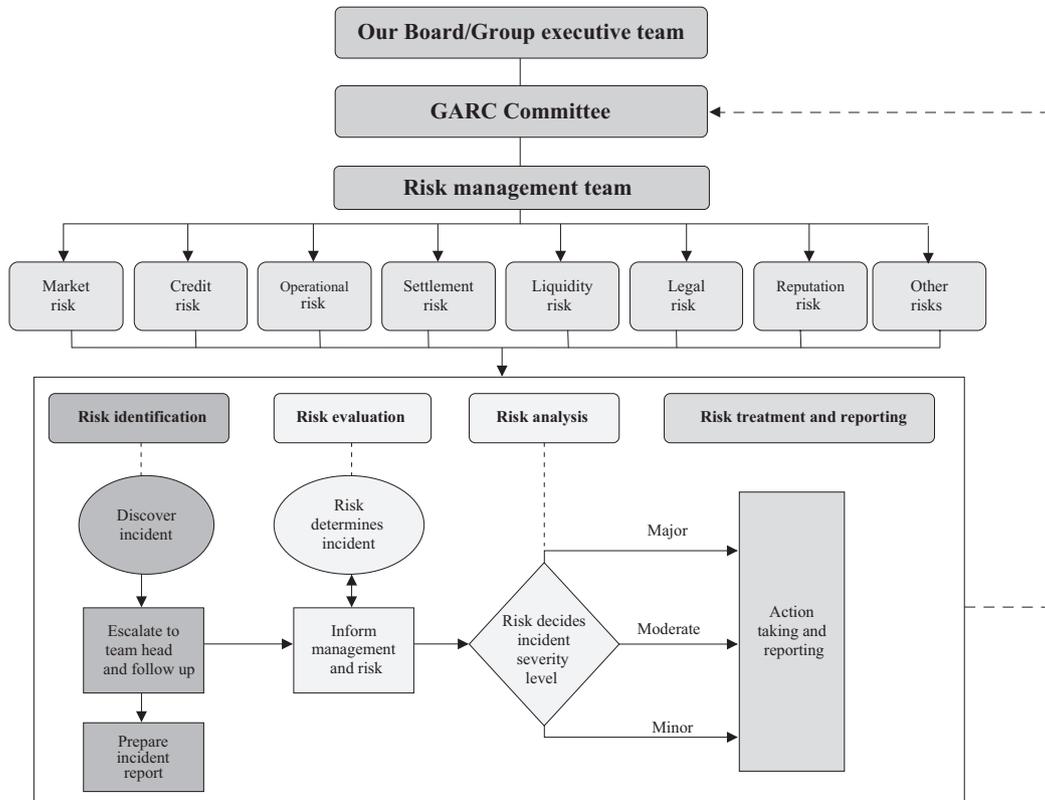
The following is a summary of our Group's risk management policies and procedures to identify, analyse and evaluate risks in which our Group may encounter:

- 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 –

Leverage ratio	Initial margin level (as a % of contract amount)	Minimum stop-out level (as a % of initial margin level)	Approximate stop-out level (as a % of contract amount)
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 ^(Note 1)
New Zealand	Market maker hedge – initial client balances exceeding the prescribed limit ^(Note 2)	Daily loss limit ^(Note 3) or shift loss limit ^(Note 4) : 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 ^(Note 5)	Daily/shift loss limit: US\$200,000	300 contracts for USD pairs 100 contracts for cross currency pairs
Hong Kong	Market maker hedge ^(Note 6)	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:

	Nature of complaint	Outcome	Subsidiary involved
Year 2012			
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 ^(Note 1)	FMA ^(Note 2)	23 November 2005	30 June 2013 ^(Note 3)
KVB AU	AFSL ^(Note 4)	ASIC	18 October 2011	None
KVB HK	Type 3 (leveraged forex trading) licence ^(Note 5)	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

Date of event	Rectification or other action taken
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.

BUSINESS

Chronology of events

Date of event	Rectification or other action taken
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

Date of event	Rectification or other action taken
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

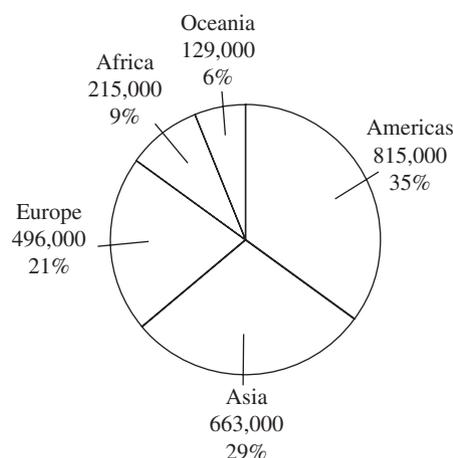
Our Directors believe that competition can come from local and international licensed corporations carrying on similar types of regulated activities as our Group around the world. As at the Latest Practicable Date, there were approximately 1,900 authorised financial advisers in New Zealand, approximately 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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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 ^(Note) (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.

BUSINESS

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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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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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 ^(Note).

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.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Prior to the passing away of Ms. Tsui in October 2011, KVB Holdings had been held by Mr. Li and Ms. Tsui in equal shares. According to the laws of intestacy of Hong Kong and the private international law rules of the BVI, Mr. Li shall be entitled to 50% and the three children of Mr. Li and the late Ms. Tsui (i.e. Mr. Li Yeuk Kuk Dennis, Ms. Li Yi Dan and Mr. Li Dong Zheng) shall be entitled to share the remaining 50% of the shareholding held by Ms. Tsui's Estate in KVB Holdings in equal shares. On 30 August 2012, the Administrators transferred 25% of the issued share capital of KVB Holdings in Ms. Tsui's Estate to Mr. Li. Accordingly, Mr. Li became the legal and beneficial shareholder of 75% of the issued share capital of KVB Holdings. The remaining 25% of the issued share capital of KVB Holdings is being held in trust by the Administrators for the three children of Mr. Li and the late Ms. Tsui.

Immediately after completion of the Capitalisation Issue and the Placing, KVB Holdings will be interested in 75% of the total issued share capital of our Company. As KVB Holdings is held as to 75% by Mr. Li, both KVB Holdings and Mr. Li are our Controlling Shareholders. Each of our Controlling Shareholders has confirmed that it/he does not have any interest in a business apart from us which competes or is likely to compete, directly or indirectly, with our Group.

Mr. Li and the late Ms. Tsui are the founders of our Group. Prior to establishing our Group, from 1994 to 2003, Mr. Li and the late Ms. Tsui were involved in the business of production and sale of cosmetics in the PRC, which included the brand "Mininurse". From 2001, Mr. Li and the late Ms. Tsui also made strategic investments in other businesses including our Group. Since the disposal of the cosmetics business in 2003, Mr. Li has diversified his investments into other business areas including tourism business in the PRC.

Prior to the passing away of Ms. Tsui in October 2011, although the late Ms. Tsui had been our Director since incorporation of our Company up to 15 April 2011, she was not involved in the development and operations of our Group. Our Directors are of the view that the passing away of Ms. Tsui did not have any material impact on our Group's business and operations.

During the Track Record Period and up to the Latest Practicable Date, the management of our Group had been carrying out through our Directors and our senior management personnel instead of through Mr. Li. As Mr. Li is in essence a passive investor of our Group who is not relevant and not responsible for the track record results of our Group, he resigned as a director of our Company, KVB NZ and KVB HK. Mr. Li did not receive any emoluments from our Group during the Track Record Period. During the Track Record Period, although Mr. Li did not attend any board meeting of our Group. Mr. Liu Stefan reported the business operations and development and the financial performance of our Group to Mr. Li annually. At present, Mr. Li and Mr. Liu Stefan discuss the overall business strategies of our Group. Mr. Li was appointed the chairman of our Board and our non-executive Director on 30 August 2011 and will comply with the requirements of the GEM Listing Rules in discharging his duties as the chairman of our Board and our executive Director upon the Listing.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

INFORMATION ON THE NON-LISTED GROUP OWNED BY OUR CONTROLLING SHAREHOLDERS

In addition to the provision of leveraged forex and other trading services as principals and introducing agents and other financial services as introducing agents through members of our Group, Mr. Li, through the Non-listed Group, carries on money changing business and provides other financial services such as securities brokerage services to its clients involving equity and derivative products such as futures, warrants and options only as principals in Hong Kong, asset management services focusing on investments in equities as principals on behalf of its clients in Hong Kong and Australia and information technology services. The securities brokerage and asset management businesses and the provision of information technology services do not involve forex related business.

Set out below are the details of the members of the Non-listed Group and their respective status and/or nature of business:

	Name	Place of incorporation	Status and/or nature of business
1.	Banclogix Limited <i>(Note 1)</i>	New Zealand	Not in operation
2.	KVB FX	New Zealand	Engaged in money changing business
3.	KVB Kunlun Interactive Limited	New Zealand	Not in operation
4.	KVB Asset Management Company Limited	Australia	Engaged in investment and asset management business
5.	KVB FX Pty	Australia	Engaged in money changing business
6.	Banclogix System Co., Limited <i>(Note 2)</i>	Hong Kong	Engaged in provision of information technology services
7.	KVB Consulting (HK) Limited <i>(Note 3)</i>	Hong Kong	Engaged in provision of consulting, investment planning and business development services
8.	KVB AM (HK)	Hong Kong	Engaged in asset management business
9.	KVB Kunlun Trading (Hong Kong) Limited <i>(Note 4)</i>	Hong Kong	Engaged in provision of HKD and USD settlement services to the money changing business of the Non-listed Group
10.	KVB Securities	Hong Kong	Engaged in securities brokerage business

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Name	Place of incorporation	Status and/ or nature of business
11. KVB Chuangjing Consultation (Beijing) Co., Ltd. (昆侖創景諮詢(北京)有限公司) <i>(Note 5)</i>	PRC	Engaged in provision of investment consultancy services relating to overseas real estate, and overseas mergers and acquisitions opportunities
12. KVB CA	Canada	Engaged in money changing business
13. KVB Kunlun Capital (Canada) Inc. <i>(Note 1)</i>	Canada	Not in operation
14. KVB Kunlun Global Capital Limited <i>(Note 6)</i>	BVI	Engaged in investment business
15. KVB Kunlun (UK) Limited <i>(Note 1)</i>	United Kingdom	Not in operation
16. KVB Kunlun USA Inc. <i>(Note 1)</i>	US	Not in operation

Notes:

1. *As far as our Directors are aware, these companies of the Non-listed Group have no foreseeable plan to commence business.*
2. *Banclogix System Co., Limited commenced business in December 2011 and is engaged in the provision of information technology services in Hong Kong. Since it is recently incorporated, there is no audited financial information available. Our Directors have confirmed that as far as they are aware, Banclogix System Co., Limited generated net profit of approximately HK\$1.0 million for the year ended 31 December 2012.*
3. *KVB Consulting (HK) Limited commenced operations in 2013 and is engaged in the provision of investment consultancy services in Hong Kong. Such company has not provided any leveraged forex trading and cash dealing services to its clients.*
4. *KVB Kunlun Trading (Hong Kong) Limited commenced operations in 2013 and is engaged in the provision of HKD and USD settlement services to the money changing business of the Non-listed Group.*
5. *KVB Chuangjing Consultation (Beijing) Co., Ltd. commenced business in January 2012 and is engaged in the provision of investment consultancy services in the PRC.*
6. *KVB Kunlun Global Capital Limited is the holding company of KVB FX, KVB FX Pty, KVB Kunlun Trading (Hong Kong) Limited and KVB CA and does not have any business other than holding these companies of the Non-listed Group.*

The above companies did not and will not engage in any business in competition with our Group as at the Latest Practicable Date and after the Listing, respectively.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

The Non-listed Group conducts its money changing business by offering physical money exchange and remittance services to its clients. Money changing differs from margin forex trading in that no leverage is being provided to clients and clients may select any settlement currency for different deals. On the contrary, our Group offers 5 times to 200 times leverage ratio to our clients of leveraged forex and other trading business and the settlement currency for individual accounts for forex trading must be specified in USD, NZD, AUD or JPY. 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.

Set out below are the requirements for setting up a dealing room of the size of our Group and the difficulties which the Non-listed Group may encounter if it intends to set up a dealing room with a comparable size to those of our Group.

	Requirement	Difficulty which may be encountered by the Non-listed Group to set up dealing room
Professionals	Experienced dealers are required to be hired for handling trades and the risks involved	Costly to hire experienced dealers
Liquidity providers	Requires strong relationships and large trading volume with liquidity providers such as banks for competitive pricing as well as market liquidity	Takes lengthy time and requires large trading volume to build up new banking relationships
Pricing from liquidity providers	Pricing from liquidity providers depends on the trading volume, higher trading volume attracts favourable pricing from liquidity providers	Trading volume of the Non-listed Group is not large enough to attract better pricing from liquidity providers
Dealing infrastructure	Requires office space for dealing room, computers, communication lines and data feed	Costly and time consuming to set up dealing infrastructure
Risk management	Requires rigid risk management and internal control procedures to control the operations of dealing room function	Costly, time consuming and requires human resources to lay down the appropriate framework for risk management and internal control function

There is no specific regulatory requirement of setting up a dealing room except that our Group has to possess the appropriate authorisations or licences to conduct the trading activities. Given the above, our Directors consider that the Non-listed Group does not have the capital and resources to build up its own dealing room.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

The Non-listed Group has its own trading platform to provide money changing services to its clients and to execute cash dealing transactions with our Group. When tellers of the Non-listed Group receive client orders for money changing services, the Non-listed Group will assess whether it holds sufficient amounts of the requested currencies for settlement. Any shortfalls in the requested currencies will be filled through placing of cash dealing orders with our Group through the trading platform of the Non-listed Group. Our dealers will proceed with such orders and enter into hedge transactions as with any other clients' open positions according to our usual dealing practices while the overall activities in our dealing rooms will be monitored by our risk management team according to our risk management policies. Please refer to the paragraph headed "Dealing rooms" in the section headed "Business" in this prospectus for more detailed information on the workflow with respect to our dealing rooms and risk management processes.

As the money changing business of the Non-listed Group is conducted by tellers instead of dealers, the Non-listed Group does not require any dealing room, which is a venue to gather dealers operating on financial markets. Dealing room is required if one would like to provide comprehensive and well-controlled cash dealing services to its clients and merely possessing a trading platform would not suffice since trading platform is just a tool/system to be used in a dealing room. It is not economical for the Non-listed Group to set up a dealing room. As such, our Directors consider that the Non-listed Group does not and will not compete with our Group by simply possessing a trading platform. To set up and ensure smooth operations of a dealing room, substantial amount of time and resources would be required as mentioned above. Our Directors consider that sourcing competitive pricing from market makers is vital to ensure smooth running of the cash dealing business and believe that market makers are unlikely to enter into agreements with the Non-listed Group in view of the small trading volume of its money changing business, let alone sourcing competitive pricing from them. Further, by virtue of the Deed of Non-competition and the corporate governance measures as disclosed in the paragraph headed "Corporate governance measures" in this section, our Directors are satisfied that the business of the Non-listed Group does not and will not compete with that of our Group.

The table below summarises the different functions of the dealing rooms of our Group and the trading platform of the Non-listed Group.

Function of the dealing rooms of our Group	Function of the trading platform of the Non-listed Group
(a) Providing liquidity/quotation to clients	(a) Generating tradable rates to money changing clients
(b) Accepting orders from clients	(b) Executing client's transactions and generating transaction tickets
(c) Confirming trades with clients	(c) Filling settlement information based on clients' instructions
(d) Managing pending orders for clients	
(e) Making margin calls to clients	
(f) Dealing with market makers	
(g) Monitoring position exposure of the dealing book	

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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. No physical settlement or delivery of the currency purchased/sold is involved in our cash dealing services, whereas the money changing services provided by the Non-listed Group represent currency exchange services which involve both physical and non-physical settlement or delivery of the currency purchased/sold. In addition, 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 by 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.

Set out below is a summary of the major differences between the cash dealing business conducted by our Group and the money changing business conducted by the Non-listed Group:

	Cash dealing business conducted by our Group	Money changing business conducted by the Non-listed Group
Clients	KVB FX, KVB FX Pty and KVB CA, being members of the Non-listed Group	Individuals
Nature of business	Wholesale to KVB FX, KVB FX Pty and KVB CA for their money changing business ^(Note 1)	Retail to end clients ^(Note 2)
Average trading volume	High per transaction Approximately US\$249,000 per transaction during the Track Record Period	Low per transaction Approximately US\$29,000 per transaction during the Track Record Period
Licensing requirements	KVB NZ has obtained the Authorised Futures Dealers Notice (No. 3) 2005 issued by the FMA, which authorises it to deal in futures contracts generally	KVB FX has obtained the Authorised Futures Dealers (KVB FX Limited) Notice 2009 issued by the FMA, which only authorises it to deal in foreign currency options or forward forex contracts, and only when it is a party (i.e. it cannot advise on such contracts or act as an intermediary/broker in respect of such contracts)
Type of staff handling the transactions	Dealers	Tellers

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

	Cash dealing business conducted by our Group	Money changing business conducted by the Non-listed Group
Staffing criteria	At least three years of trading experience in a similar field, dealing room experience is an advantage	At least one year of experience in sales and client services
Income recognition	Price differential between the price quoted to KVB FX, KVB FX Pty and KVB CA on normal commercial terms and the price offered by market makers recognised when the transactions are closed with market makers	Price differential between the price quoted to money changing clients and the price offered by our Group on the trade day of physical exchange of currencies
Purpose of services	Hedging purpose	Physical exchange of one currency to another currency for daily use
Settlement	By non-physical method, i.e. bank transfer or telegraphic transfer	By physical method, i.e. cash or traveller's cheque, and non-physical method, i.e. bank transfer or telegraphic transfer
Risk exposure	Counterparty default risk by the Non-listed Group and market makers Market risk arising from forex rate fluctuation for uncovered positions	Counterparty default risk by our Group Market risk arising from forex rate fluctuation for uncovered positions

Notes:

1. *Wholesales refer to the transactions conducted with intermediaries.*
2. *Retail sales refer to the transactions conducted with end clients.*

Based on the aforesaid, our Group's cash dealing services can be clearly delineated from the money changing services provided by the Non-listed Group and the services provided by the Non-listed Group will continue after the Listing. As our Group focuses on our core business of leveraged forex and other trading business, the disposal of money changing business would streamline the business model of our Group.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Set out below is a comparison between our Group and the Non-listed Group:

	Our Group	The Non-listed Group
Business scope	Leveraged forex and other trading business and cash dealing business	Mainly money changing business, securities brokerage business, asset management business and provision of information technology services
Geographical location of operations and clients	New Zealand, Australia and Hong Kong	Mainly in New Zealand, Australia, Hong Kong and Canada
Marketing and sales channel	<ul style="list-style-type: none"> (a) Advertising through newspapers, magazines, radio, television and internet (b) Sales promotion, e.g. reward programme (c) Events, e.g. seminars, forums and road shows (d) Sponsorship, e.g. concerts and sport events (e) Electronic direct mails, e.g. daily commentary via emails (f) Public relations 	<ul style="list-style-type: none"> (a) Advertising through newspapers, magazines, radio, television and internet (b) Sales promotion, e.g. reward programme (c) Electronic direct mails, e.g. daily commentary via emails
Number of clients as at 31 December 2012	Around 11,900 (given that the client relationship database of our Group and the Non-listed Group are not compatible, our Directors believe that some clients of the Non-listed Group using its money changing services and securities brokerage services also use the services of our Group)	<ul style="list-style-type: none"> (a) Money changing business: around 64,000 (b) Securities brokerage business: around 560 (c) Asset management business: 13 <p>All the clients of the Non-listed Group are Independent Third Parties</p>
Number of market makers as at 31 December 2012	14 market makers, comprising major investment banks	<p>13 cash settlement counterparties, including major retail bank divisions to cater for clients' needs to facilitate the money changing transactions with the Non-listed Group</p> <p>Securities brokerage business and asset management business do not involve market makers</p>
Number of employees as at 31 December 2012	60	<ul style="list-style-type: none"> (a) Money changing business: 59 (b) Securities brokerage business and asset management business: 21

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

	Our Group	The Non-listed Group
Number of management personnel as at 31 December 2012	10	(a) Money changing business: 12 (b) Securities brokerage business and asset management business: 7
Management structure after the Listing	Please refer to the section headed “Directors, Senior Management and Employees” in this prospectus	(a) Money changing business: Mr. Liu Stefan (chairman and non-executive director of the Non-listed Group) Ms. Sun Ning (global head of cash business) Mr. Howard Wallace Dean Wilcox (director of sales and marketing of New Zealand and Australia) Mr. Hou Zhenyang (sales and marketing associate director of North America) Mr. Wei Zhong (senior information technology development consultant) Mr. Yamada Satoru (regional manager of Japanese market) Ms. Hidajat Veronica Erny (settlement manager) Mr. Zhang Wei (regional business development manager) Ms. Ho Mei Ling Kitty (accounting manager) (b) Securities brokerage business and asset management business: Mr. Liu Stefan (chairman and non-executive director of certain members of the Non-listed Group) Mr. Ng Chee Hung Frederick (executive director of KVB Securities and KVB AM (HK)) Mr. Ip Ming Ho (operations manager)
Income for the year ended 31 December 2012	Approximately HK\$123.2 million	(a) Money changing business: approximately HK\$85.5 million (b) Securities brokerage business: approximately HK\$0.4 million (c) Asset management business: approximately HK\$0.1 million (d) Information technology services: approximately HK\$4.0 million

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

	Our Group	The Non-listed Group
Income for the year ended 31 December 2011	Approximately HK\$155.2 million	(a) Money changing business: approximately HK\$96.8 million (b) Securities brokerage business: approximately HK\$1.1 million (c) Asset management business: approximately HK\$3.3 million
Profit/loss after tax for the year ended 31 December 2012	Loss of approximately HK\$1.7 million	(a) Money changing business: profit of approximately HK\$21.4 million (b) Securities brokerage business: loss of approximately HK\$6.0 million (c) Asset management business: loss of approximately HK\$11.9 million (d) Information technology services: profit of approximately HK\$1.0 million
Profit/loss after tax for the year ended 31 December 2011	Profit of approximately HK\$35.6 million	(a) Money changing business: profit of approximately HK\$31.1 million (b) Securities brokerage business: loss of approximately HK\$6.2 million (c) Asset management business: loss of approximately HK\$5.8 million
Cash inflow/outflow before working capital changes for the year ended 31 December 2012	Inflow of approximately HK\$3.2 million	(a) Money changing business: inflow of approximately HK\$21.4 million (b) Securities brokerage business: outflow of approximately HK\$5.1 million (c) Asset management business: outflow of approximately HK\$9.5 million (d) Information technology services: inflow of approximately HK\$1.0 million
Cash inflow/outflow before working capital changes for the year ended 31 December 2011	Inflow of approximately HK\$50.9 million	(a) Money changing business: inflow of approximately HK\$32.6 million (b) Securities brokerage business: outflow of approximately HK\$5.3 million (c) Asset management business: outflow of approximately HK\$4.4 million

The remaining members of the Non-listed Group were not engaged in any business for the two years ended 31 December 2011 and 31 December 2012 and had not generated any income for the two years ended 31 December 2011 and 31 December 2012. The remaining members of the Non-listed Group recorded income, net loss and cash outflow before working capital changes of approximately HK\$0.1 million, HK\$2.5 million and HK\$2.5 million, respectively, for the year ended 31 December 2012.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Due to the above and the difference in nature of money changing and forex trading (including margin forex trading and cash dealing), one being deliverables conducted in person or over the phone and one being non-deliverables conducted mostly online, our Directors consider that there is no overlapping of services offered by the Non-listed Group and our Group. However, given that the client relationship databases of our Group and the Non-listed Group are not compatible, our Directors believe that some of the clients of the money changing business and the securities brokerage business of the Non-listed Group also utilise the services provided by our Group.

Since our Group focuses on the leveraged forex and other trading business and the cash dealing business and there is distinct and clear delineation in the nature of services provided by our Group and those by the Non-listed Group, and by virtue of the Deed of Non-competition and the corporate governance measures as disclosed in the paragraph headed "Corporate governance measures" in this section, our Directors are satisfied that the business of the Non-listed Group does not and will not compete with that of our Group.

To the best knowledge of our Directors and having made all reasonable enquiries, the table below sets out, for illustrative purpose only, the cash flows from operating activities before changes in working capital and taxes paid of our Group and the Non-listed Group for the two years ended 31 December 2011 and 31 December 2012.

	For the year ended	
	31 December	
	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Our Group	50,937	3,168
The Non-listed Group	<u>22,801</u>	<u>5,322</u>
Total	<u>73,738</u>	<u>8,490</u>

Given that the cash flows from operating activities before changes in working capital and taxes paid of our Group, whether to be aggregated with that of the Non-listed Group or not, exceeds HK\$20,000,000 in aggregate for the two financial years immediately preceding the date of this prospectus, our Group would still be able to meet the minimum cash flow requirement under Rule 11.12A(1) of the GEM Listing Rules even if the Non-listed Group were included in our Group.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

MANAGEMENT AND OPERATIONAL INDEPENDENCE

Our Board comprises seven Directors, including two executive Directors, two non-executive Directors and three independent non-executive Directors.

Although our Controlling Shareholders will retain controlling interests in our Company after the Listing and Mr. Li is the chairman of our Board and our non-executive Director, the management and investment decisions are made by our Board in a collective manner, and each of our Directors is aware of his/her fiduciary duties as a Director, which require, among others, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest. Our Company has adopted provisions in the Articles that all conflicting or over-lapping Directors shall be absent from participating in the discussion and abstain from voting on the relevant resolution where they or their associates have a material interest unless they are requested to attend such meeting of our Board by a majority of our independent non-executive Directors.

Our own management team comprising our executive Directors and senior management personnel, with all members not connected with our Controlling Shareholders, has served our Group for a substantial period of time and has substantial experience in the financial industry.

Mr. Liu Stefan, being one of the responsible officers of KVB HK and the chairman and a non-executive director of certain members of the Non-listed Group, will remain to hold these overlapping directorships upon the Listing. Mr. Liu is a core member since the establishment of our Group and the Non-listed Group and has been involved and participated in the development of both our Group and the Non-listed Group. Due to his experience and knowledge of the Non-listed Group, Mr. Liu will continue to provide his expertise to the Non-listed Group, but only to the extent of providing consultation and advices on strategic planning. He will provide advice and leadership to the Non-listed Group when necessary, but he will not actively involve in the operation and management of the Non-listed Group. The daily operation and management of the Non-listed Group will be discharged by its respective senior management.

Mr. Ng Chee Hung Frederick, being the executive director and one of the responsible officers of each of KVB HK, KVB Securities and KVB AM (HK), will remain to hold these overlapping positions upon the Listing. Mr. Ng has been responsible for supervising the development of each of KVB Securities and KVB AM (HK). Due to his experience and knowledge, Mr. Ng will continue to provide his expertise to these two members of the Non-listed Group, but only to the extent of providing supervision, consultation and advices on strategic planning and he will not actively involve in their respective operation and management. The daily operation and management of each of KVB Securities and KVB AM (HK) will be discharged by its respective senior management.

Each member of the Non-listed Group has its own management team handling the day-to-day business operations and administration. The managing obligations of each member of the Non-listed Group are delegated to the heads of different departments and various systems are in force to ensure effective communication between departments and smooth operation of the relevant company.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

It is expected that each of Mr. Liu and Mr. Ng, when performing his roles in providing advice and leadership to the Non-listed Group, will not spend more than 10% of his working time in providing advices to the Non-listed Group after the Listing.

Our Directors (including our independent non-executive Directors) consider that our Board can function independently of the Non-listed Group, notwithstanding that Mr. Liu and Mr. Ng have overlapping positions with the Non-listed Group, for the following reasons:

- (a) it is our Board as a whole, and not any individual Director, which make decisions for our Company;
- (b) the day-to-day operations of our Group is not only managed by our executive Directors, but also by our senior management personnel, all of whom are full-time employees of our Group and independent of the Non-listed Group. Our executive Directors together with our senior management form the core management personnel team of our Company; and
- (c) our Board has put in place adequate arrangements to manage conflict of interest to ensure independent decision-making, to safeguard the protective measures of the non-competition undertaking under the Deed of Non-competition, and ultimately, to protect the interests of our Shareholders.

Save for Mr. Liu Stefan and Mr. Ng Chee Hung Frederick as disclosed above, none of our executive Directors nor senior management personnel of our Company has any overlapping management position with the Non-listed Group.

In addition, other than those set out in the section headed “Connected Transactions” in this prospectus, there are no continuing connected transactions between our Controlling Shareholders, their associates and our Group which will be subject to the reporting, annual review, announcement and independent Shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules.

Further, we have established our own set of organisational structure made up of individual departments, each with specific areas of responsibilities. We have also established a set of internal controls to facilitate effective operation of our business.

Our Group will have certain continuing connected transactions with the Non-listed Group after the Listing, particulars of which are set out in the section headed “Connected Transactions” in this prospectus. Our Directors consider that although the Trademark Licence (as defined in the paragraph headed “Exempted continuing connected transactions” in the section headed “Connected Transactions” in this prospectus) and the ERP system are beneficial to our business development, they do not have significant impact on the continuation of our business operations. Our Group provides cash dealing services to KVB FX, KVB FX Pty and KVB CA for the purpose of hedging their cash positions and meeting settlement obligations and the income generated thereby accounted for approximately 8.1% and 7.5% of our Group’s total income for the two years ended 31 December 2011 and 31 December 2012, respectively, which was not substantial to our total income during the Track Record Period and has been on a downward trend. In addition, our Group will provide the Shared Services (as defined in the paragraph

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headed “Non-exempt continuing connected transactions” in the section headed “Connected Transactions” in this prospectus) to members of the Non-listed Group at cost plus a 10% markup after the Listing and our Directors consider that the income to be generated thereby, which should not exceed approximately HK\$2,905,000, HK\$3,050,000 and HK\$3,203,000 for the three years ending 31 December 2013, 31 December 2014 and 31 December 2015, respectively, will not be significant. Based on the aforesaid, our Directors are satisfied that we can operate independently of our Controlling Shareholders despite the connected transactions with the Non-listed Group.

FINANCIAL INDEPENDENCE

We have our own accounting and finance department and independent financial system and make financial decisions according to our own business needs. We also have our own treasury function and independent access to third party financing. As at 31 December 2012, our Group had amounts due to our Controlling Shareholders of approximately HK\$3.7 million. Our Directors have confirmed that all the non-trade balances with the Non-Listed Group will be settled prior to the Listing. In addition, as at the Latest Practicable Date, none of our Controlling Shareholders provided guarantees or security for our banking facilities and vice versa. Therefore, upon the Listing, there will be no financial dependence on our Controlling Shareholders or any of their respective associates.

DEED OF NON-COMPETITION

For the purpose of the Listing, our Controlling Shareholders have entered into the Deed of Non-competition in favour of our Company, pursuant to which each of our Controlling Shareholders has irrevocably undertaken to our Company (for itself and for the benefit of our subsidiaries) that it/he will not, and will procure that its/his associates (other than any member of our Group) will not, during the terms of the deed, directly or indirectly, either on its/his own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, director, partner, agent, employee, or otherwise, and whether for profit, reward or otherwise), or provide support in any form to any person, firm or company other than our Group to engage in any activity or business which is or may be in competition, directly or indirectly, with the business carried on or contemplated to be carried on by any member of our Group from time to time (the “**Restricted Activity**”).

Each of our Controlling Shareholders has also irrevocably undertaken to our Company (for itself and for the benefit of our subsidiaries) that in the event that it/he or its/his associate(s) is given/identifies any business opportunities which directly or indirectly competes, or may lead to competition with the Restricted Activity, it/he will and will procure its/his associate(s) to, as soon as practicable inform our Company of such opportunity in writing, provide such information as is available to it/him in respect of such business opportunity to our Company upon becoming aware of it and assist our Company in obtaining such business opportunities in terms being offered to it/he or its/his associate(s).

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Our Controlling Shareholders shall not and shall not procure any persons or companies in its/his control to invest or participate in such business opportunity unless such business opportunity shall have been rejected by our Board which consists of our independent non-executive Directors only, and the principal terms on which our Controlling Shareholders or its/his associates invest or participate are no more favourable than those made available to our Group.

None of our Controlling Shareholders and their associates shall pursue such business opportunity unless our Company decides not to pursue such business opportunity. Any decision of our Company as to whether to pursue such business opportunity shall have to be approved solely by our independent non-executive Directors. We will disclose such decision of our independent non-executive Directors including the basis for accepting or rejecting such business opportunity in our annual reports or announcements. For the avoidance of doubt, our Company shall not be required to pay any fees to any of our Controlling Shareholders and/or their relevant associate(s) in relation to the direction of such business opportunity.

Each of our Controlling Shareholders further, irrevocably and unconditionally, undertakes that it/he will provide to us all information necessary for the enforcement of the above non-competition undertakings.

The Deed of Non-competition also provides that our Controlling Shareholders shall:

- (a) provide all information requested by our Company which is necessary for an annual review by our independent non-executive Directors of its/his compliance with the terms of the Deed of Non-competition and the enforcement of the Deed of Non-competition or a negative confirmation, as appropriate;
- (b) procure our Company to disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of its/his non-competition undertakings either through the annual report, or by way of announcements to the public;
- (c) make an annual declaration on compliance with its/his non-competition undertakings in our Company's annual reports as our independent non-executive Directors think fit and ensure that the disclosure of details of their compliance with and the enforcement of the non-competition undertakings is consistent with the relevant requirements under the GEM Listing Rules; and
- (d) abstain from any meeting of our Shareholders and/or our Board where there is any actual or potential conflicting interest.

Such non-competition undertaking does not apply to:

- (a) the holding of or interests in the shares of any member of our Group; or

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- (b) the holding of or interests in shares or other securities in any company other than our Group which conducts or is engaged in any Restricted Activity, provided that, in the case of such shares, they are listed on a recognised stock exchange and either:
 - (i) the relevant Restricted Activity (and assets relating thereto) accounts for less than 10% of that relevant company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or
 - (ii) the total number of shares held by our Controlling Shareholders and/or their respective associates or in which they are together interested does not exceed 5% of the issued shares of that class of the company in question, and that our Controlling Shareholders and/or their respective associates, whether acting singly or jointly, are not entitled to appoint a majority of the directors of that company and that at all times there should exist at least another shareholder of that company (together, where appropriate, with its associates) who holds a larger percentage of the shares of the company in question than our Controlling Shareholders and/or their respective associates together hold; or
- (c) the holding of or interests in shares or other securities in any company other than our Group which conducts or is engaged in any Restricted Activity, provided that, in the case of such shares, they are not listed on a recognised stock exchange and the total number of shares held by our Controlling Shareholders and/or their respective associates or in which they are together interested does not amount to more than 30% of the issued shares of that class of the company in question, provided that our Controlling Shareholders and/or their respective associates, whether acting singly or jointly, are not entitled to appoint a majority of the directors of that company and that at all times there should exist at least another shareholder of that company (together, where appropriate, with its associates) who holds a larger percentage of the shares of the company in question than our Controlling Shareholders and/or their respective associates together hold.

Such non-competition undertaking will cease to have effect upon (a) the date on which the securities of our Company cease to be listed on the Stock Exchange or (b) in respect of our Controlling Shareholders, the date on which the relevant Controlling Shareholder and/or its/his associates, collectively and individually, cease(s) to be entitled to exercise or control the exercise of 30% or more of the voting power in general meetings of our Company, whichever occurs first.

CORPORATE GOVERNANCE MEASURES

Although each of our Controlling Shareholders has confirmed that it/he does not have any interest in a business apart from us which competes or is likely to compete, directly or indirectly, with us, our Company will adopt the following measures to manage the conflict of interest arising from the possible competing business of our Controlling Shareholders, if any, and to safeguard the interests of our Shareholders:

- (a) our independent non-executive Directors will review, on an annual basis, the compliance with the Deed of Non-competition by our Controlling Shareholders;

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- (b) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition by our Controlling Shareholders in the annual reports of our Company;
- (c) our Directors operate in accordance with the Articles which require the interested Director not to vote (nor be counted in the quorum) on any resolution of our Board approving any contract or arrangement or other proposal in which he/she or any of his/her associates is materially interested; and
- (d) pursuant to the Code, our Directors, including our independent non-executive Directors, will be able to seek independent professional advice from external parties in appropriate circumstances at our cost.

Our Company is expected to comply with the Code which sets out the principles of good corporate governance in relation to, among others, our Directors, chairman and chief executive officer, Board composition, the appointment, re-election and removal of Directors, their responsibilities and remuneration and communications with our Shareholders. We have set up a corporate governance committee to develop and review our Company's policies and practices on corporate governance and make recommendation to our Board. Our Company will state in our interim and annual reports whether we have complied with the Code, and will provide details of, and reasons for, any deviations from it in the corporate governance report which will be included in our annual reports.

DEED OF INDEMNITY

Under the Deed of Indemnity, KVB Holdings and Mr. Li (together the “**Indemnifiers**”) have jointly and severally undertaken to and covenanted with our Company that they will indemnify and keep our Company indemnified against any and all tax liabilities falling on our Group which might be payable by our Group in respect of any incomes, profits or gains earned, accrued or received on or before the date on which the Placing becomes unconditional, save in the following circumstances:

- (a) to the extent that specific provision or reserve has been made for such liability in the audited accounts of our Group during the Track Record Period;
- (b) to the extent that such liability only arises or is incurred as a result of a retrospective change in the laws, rules or regulations or interpretation or practice thereof coming into force after the date on which the Placing becomes unconditional or to the extent that such taxation claim arises or is increased by a retrospective increase in rates of taxation coming into force after the date on which the Placing becomes unconditional;
- (c) the liability would not have arisen but for any act or omission or transaction or delay by any member of our Group voluntarily effected after the date on which the Placing becomes unconditional which the relevant member of our Group ought reasonably to have known would give rise to such liability but excluding any act:
 - (i) carried out pursuant to a legally binding obligation of any member of our Group entered into or incurred on or before the date on which the Placing becomes unconditional;

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- (ii) taking place with the written approval of the Indemnifiers (such approval not to be unreasonably withheld or delayed) or pursuant to the Placing or any document executed pursuant to the Placing; or
- (iii) occurring in the ordinary course of business of our Group;
- (d) the liability arises in the ordinary course of business of our Group after 31 December 2012 up to and including the date on which the Placing becomes unconditional; or
- (e) the liability arises, is incurred or is increased as a result of a change in accounting policies after the Placing becomes unconditional.

Pursuant to the Deed of Indemnity, the Indemnifiers have also agreed to provide indemnities on a joint and several basis in respect of, among other matters, Hong Kong estate duty which might be payable by any member of our Group, by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) as amended by the Revenue (Abolition of Estate Duty) Ordinance 2005) to any member of our Group on or before the date on which the Placing becomes unconditional.

In addition, pursuant to the Deed of Indemnity, the Indemnifiers have also agreed to jointly and severally indemnify our Company from and against all claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses, penalties and fines of whatever nature which any member of our Group may incur, suffer or accrue, directly or indirectly, arising from, as a result of or in connection with any loss and/or penalty resulting from or in respect of any non-compliance with the applicable laws, rules and regulations by any member of our Group on or before the Listing Date.

CONNECTED TRANSACTIONS

Our Group entered into certain agreements and arrangements with the Connected Persons of our Company in the ordinary and usual course of business during the Track Record Period. These transactions are expected to continue after the Listing. Details of these transactions are set out below.

EXEMPTED CONTINUING CONNECTED TRANSACTIONS

The continuing connected transactions below are exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements

(a) Trademark Licence Agreement

Our Company and KVB Holdings entered into a trademark licence agreement (the “**Trademark Licence Agreement**”) on 18 December 2012, pursuant to which KVB Holdings has agreed to grant a non-exclusive and non-transferable licence (the “**Trademark Licence**”) to our Group to use nine trademarks (the “**Licensed Trademarks**”) registered in the name of KVB Holdings in the relevant countries of registration for a nominal consideration of HK\$1.00 in connection with our Group's business. Our Company has agreed not to grant any sub-licence for the use of the Licensed Trademarks without the prior written consent of KVB Holdings.

Details of the Licensed Trademarks are described under the paragraph headed “Intellectual property rights” in Appendix IV to this prospectus.

KVB Holdings is our holding company and is the registered owner of the Licensed Trademarks. To obtain synergy from the “KVB” brand in providing a variety of financial services and positioning our Group as a financial conglomerate, the Trademark Licence Agreement has been entered into between our Company and KVB Holdings. As our Group has been using and is still using the Licensed Trademarks in the ordinary and usual course of business, it is beneficial to our Group to continue to use the Licensed Trademarks.

As KVB Holdings is a Connected Person of our Company after the Listing, the Trademark Licence provided by KVB Holdings to our Group under the Trademark Licence Agreement will constitute continuing connected transactions of our Company pursuant to Rule 20.14 of the GEM Listing Rules.

Our Directors (including our independent non-executive Directors) consider that the transactions contemplated under the Trademark Licence Agreement are on terms no less favourable to our Group than terms available to Independent Third Parties, fair and reasonable and in the interests of our Group and our Shareholders as a whole.

Given that the consideration for the Trademark Licence under the Trademark Licence Agreement is nominal, the transactions contemplated under the Trademark Licence Agreement fall within the de minimis threshold under Rule 20.33(3) of the GEM Listing Rules and are exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

CONNECTED TRANSACTIONS

(b) Financial System Agreement

The Non-listed Group has from time to time provided financial system and website maintenance services to our Group in the ordinary and usual course of business and it is anticipated that our Group will continue to engage the Non-listed Group to provide financial system services in the ordinary and usual course of business.

Our Company entered into a financial system services agreement on 18 December 2012 and a supplemental agreement on 3 June 2013 with KVB Holdings (together, the “**Financial System Agreement**”), pursuant to which the Non-listed Group has agreed to provide financial system services to our Group subject to the terms and conditions of the Financial System Agreement. These services include the provision of the ERP system support. The ERP system is not part of the ForexStar system and is currently utilised by our Group to support our normal accounting and financial functions and to implement the business planning and budget control systems. These services will continue after the Listing.

KVB Holdings has a licence for the use of the ERP system, an enterprise resources system which includes systems application programming integrating multiple business processes and functions of KVB Holdings into one comprehensive system. Considering the need to ensure timely financial information, arrangement by KVB Holdings is made to cover both the needs of our Group on the one part and the Non-listed Group on the other part. Due to the expensive development cost which amounted to approximately US\$1.0 million as at the Latest Practicable Date and the long setup time for establishing the ERP system since July 2007, our Directors consider that it is more cost-effective to share the financial system with KVB Holdings.

In addition to our security measures in relation to access to our trading platform and client information as stated in the paragraph headed “Security” in the section headed “Business” in this prospectus, the ERP system has an authorisation matrix which governs the access right of the users to safeguard the sensitive information of our Group and our clients.

Pricing standard

The service fees payable by our Group to the Non-listed Group are determined based on the depreciation of the ERP system and the actual cost of management services provided.

Historical figures

During the two years ended 31 December 2011 and 31 December 2012, our Group paid approximately HK\$1,838,000 and HK\$678,000, respectively, to the Non-listed Group for the provision of the financial system and website maintenance services. The aforesaid historical figures are less than the amounts under the relevant related party transaction as laid down in note 27 to the accountant’s report in Appendix I to this prospectus since the latter also include the fees of the discontinued services other than the financial system and website maintenance services. The fees of such discontinued services represented the fees charged by the Non-listed Group to reimburse the external service providers. Since July 2012, our Group has entered into arrangements with the external service providers directly instead of through the Non-listed Group.

CONNECTED TRANSACTIONS

The relatively large amount for the year ended 31 December 2011 is mainly attributable to the setting up of a new website and the increase in website maintenance services in 2011. The website was set up to provide an integrated platform for operations and business for both our Group and the Non-listed Group. A separate website for our Group will be set up upon the Listing.

General

As each of KVB Holdings and its subsidiaries is a Connected Person of our Company after the Listing, services provided by members of the Non-listed Group to our Group under the Financial System Agreement will constitute continuing connected transactions of our Company pursuant to Rule 20.14 of the GEM Listing Rules.

Our Directors (including our independent non-executive Directors) consider that the Financial System Agreement has been entered into on an arm's length basis and in the ordinary and usual course of business, and that the transactions contemplated under the Financial System Agreement are on normal commercial terms, fair and reasonable and in the interests of our Group and our Shareholders as a whole.

Given that each of the percentage ratios (other than the profit ratio) for the transactions contemplated under the Financial System Agreement, where appropriate, calculated by reference to Rule 19.07 of the GEM Listing Rules, is expected on an annual basis to be less than 5% and the annual consideration is less than HK\$1 million, the transactions contemplated under the Financial System Agreement fall within the de minimis threshold under Rule 20.33(3) of the GEM Listing Rules and are exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

1. The continuing connected transactions below are subject to the reporting, annual review and announcement requirements

Shared Services Agreement

Our Group has from time to time provided group management, information technology, marketing and administration support services (the “**Shared Services**”) to the Non-listed Group in the ordinary and usual course of business and it is anticipated that the Non-listed Group will continue to engage our Group to provide the Shared Services in the ordinary and usual course of business upon the Listing including some non-core business supporting functions such as legal, corporate finance, information technology, human resources, marketing and other administrative support.

Our Company entered into a shared services agreement on 18 December 2012 and a supplemental agreement on 3 June 2013 with KVB Holdings (together, the “**Shared Services Agreement**”), pursuant to which our Company has agreed to provide or procure our subsidiaries to provide the Shared Services to the Non-listed Group subject to the terms and conditions of the Shared Services Agreement.

CONNECTED TRANSACTIONS

During the Track Record Period, the Shared Services included the provision of group management, legal, information technology, marketing and other administrative support and the sharing of common used assets such as computer hardware and software, office equipments, furniture and fittings and leasehold improvements due to the sharing of offices with the Non-listed Group. Our Directors consider that it would be costly and resources wasting to maintain a full team of staff to perform certain non-core business supporting functions for our Group given that the workload related to our Group is not expected to occupy all their working hours and that it is to our Group's benefit to share such services with the Non-listed Group and charge the Non-listed Group service fees as our income. Therefore, the Shared Services will continue after the Listing but to a lesser extent following the segregation of businesses of our Group and Non-listed Group.

In particular, for operational efficiency and cost-effectiveness, we deployed full-time staff in our Group to take up positions such as legal manager, corporate finance director and information technology manager to serve different entities of the Non-listed Group in different locations. Personnel related costs will need to be recovered from the Non-listed Group based on an estimation of time involved in the Non-listed Group by these personnel. Some of the hardware and software support are common and cannot be segregated within the same office, for instance, data information services and hardware and software maintenance services. They are charged to the respective parties with reference to the estimated usage. Further, depreciation of leasehold improvements and common used assets in the shared offices cannot be segregated and can only be reimbursed through shared management fees.

Pricing standard

The fees for the Shared Services payable by the Non-listed Group to our Group are determined based on the actual cost of the Shared Services provided with reference to the actual usage of each party during the Track Record Period plus a 10% markup.

Historical figures and annual caps

During the two years ended 31 December 2011 and 31 December 2012, our Group received approximately HK\$12,803,000 and HK\$7,916,000, respectively, from the Non-listed Group for the provision of the Shared Services. The Shared Services were provided at actual cost based on actual usage of each party or cost plus a 10% markup during the Track Record Period.

Our Group charged the Shared Services at a 10% markup on members of the Non-listed Group except for KVB AM (HK), KVB Securities and KVB CA to which our Group charged the Shared Services at cost taking into consideration that they were relatively smaller scale of operations and made loss in the previous years. Our Group has stopped providing the Shared Services to KVB AM (HK) and KVB Securities since May 2011 and to KVB CA since July 2012. Our Group will provide the Shared Services to other members of the Non-listed Group at cost plus a 10% markup after the Listing.

CONNECTED TRANSACTIONS

The proposed cap amounts of the fees to be received by our Group under the Shared Services Agreement for each of the three years ending 31 December 2013, 31 December 2014 and 31 December 2015 are HK\$2,905,000, HK\$3,050,000 and HK\$3,203,000, respectively.

The proposed annual cap is expected to reduce substantially for the year ending 31 December 2013 given that certain existing Shared Services, such as risk and compliance function, will be taken up separately by the respective staff of our Group and Non-listed Group upon the Listing. Only some non-core business supporting functions such as legal, corporate finance, information technology, human resources and marketing will remain to be shared after the Listing given the efficiency and cost consideration.

With reference to the historical figures of the Shared Services, the proposed annual caps for the Shared Services are based on the estimation of the size of centralised cost pools, the time and efforts which need to be shared between our Group and the Non-listed Group and the expected inflation of 5% over the operating cost of the Shared Services. The time allocation and usage is determined upon the estimation by the relevant staff and the review by the management of our Group on the historical staff costs, the scope of duty to be performed by our staff in providing the Shared Services and the estimated time spent by our staff in providing the Shared Services.

Set out below is a detailed analysis of the historical figures and annual caps of the Shared Services:

Shared Services	For the year ended		For the year ending		
	31 December		31 December		
	2011	2012	2013	2014	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accounting and administrative and common assets support	1,447	1,102	351	369	387
Corporate finance and development	–	–	1,044	1,096	1,151
Compliance, legal and risk	2,069	1,559	360	378	397
Human resources	1,033	877	322	338	355
Sales, operation and settlement	246	404	–	–	–
Treasury	361	139	–	–	–
Information technology	2,199	1,102	210	221	232
Marketing	1,495	621	340	357	375
Executive management	2,769	1,490	–	–	–
Markup and disbursements	1,184	622	278	291	306
Total	<u>12,803</u>	<u>7,916</u>	<u>2,905</u>	<u>3,050</u>	<u>3,203</u>

CONNECTED TRANSACTIONS

In connection with the accounting and administrative and common assets support services, the decrease in the transaction amount from the year ended 31 December 2011 to the year ended 31 December 2012 was mainly due to the segregation of the accounting staff between our Group and the Non-listed Group. It is intended that our accounting and administrative staff will cease to provide services to the Non-listed Group upon the Listing and only common used assets will be shared with the Non-listed Group after the Listing. The annual cap for the accounting and administrative and common assets support services for the year ending 31 December 2013 is estimated mainly based on the actual staff costs incurred by our Group and usage of the common used assets prior to the Listing. The annual caps for the two years ending 31 December 2014 and 31 December 2015 are estimated mainly based on the annualised expected usage of the common used assets for the year ending 31 December 2013 to be shared with the Non-listed Group after the Listing with a 5% annual increment.

It is expected that there will be increasing opportunities for corporate finance and development projects such as mergers and acquisitions for our Group and the Non-listed Group and therefore we will allocate a team of staff to this particular function. As such projects are expected to be ad hoc and non-routine in nature and the staff costs for qualified persons are relatively high, it will be more economical and efficient for our Groups to share the corporate finance and development function with the Non-listed Group. The annual caps for the three years ending 31 December 2013, 31 December 2014 and 31 December 2015 are estimated based on the annualised expected staff costs of the corporate finance and development function to be shared with the Non-listed Group after the Listing with a 5% annual increment.

The decrease in the fee relating to compliance, legal and risk from the year ended 31 December 2011 to the year ended 31 December 2012 was mainly due to the segregation of the compliance, legal and risk function between our Group and the Non-listed Group resulting in less service fee charged. It is intended that only one legal staff will provide services to the Non-listed Group after the Listing considering that it will be more economical for our Group and the Non-listed Group to share the costs of such staff. The annual cap for the year ending 31 December 2013 is estimated mainly based on (a) the actual staff costs incurred by our Group prior to the Listing; and (b) the expected legal staff costs on the basis of the estimated time and work to be shared with the Non-listed Group after the Listing. The annual caps for the two years ending 31 December 2014 and 31 December 2015 are estimated based on the annualised expected legal staff costs for the year ending 31 December 2013 to be shared with the Non-listed Group after the Listing with a 5% annual increment.

The decrease in the fee relating to human resources from the year ended 31 December 2011 to the year ended 31 December 2012 was mainly due to the segregation of the human resources function between our Group and the Non-listed Group resulting in less service fee charged. It is intended that only one human resources staff in our overseas office will provide services to the Non-listed Group after the Listing for cost consideration. The annual cap for the year ending 31 December 2013 is estimated mainly based on (a) the actual human resources staff costs incurred by our Group prior to the Listing; and (b) the expected human resources staff costs on the basis of the estimated time and work to be shared with the Non-listed Group after the Listing. The annual caps for the two years ending 31 December 2014 and 31 December

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2015 are estimated based on the annualised expected human resources staff costs for the year ending 31 December 2013 to be shared with the Non-listed Group after the Listing with a 5% annual increment.

The increase in the fee relating to sales, operations and settlement from the year ended 31 December 2011 to the year ended 31 December 2012 was mainly due to the increase in the number of staff in our overseas offices for the operations of our Group and the Non-listed Group. It is intended that the sales, operations and settlement function will be completely segregated between our Group and the Non-listed Group upon the Listing.

The decrease in the fee relating to treasury from the year ended 31 December 2011 to the year ended 31 December 2012 was mainly due to the segregation of the treasury function between our Group and the Non-listed Group in the first half of the year ended 31 December 2012.

During the Track Record Period, the fee relating to information technology decreased due to the relocation of information technology managers from our Group to the Non-listed Group as well as the decrease in the overall operating expenses for the information technology function. It is intended that only a minimum number of information technology staff will provide services to the Non-listed Group after the Listing. The annual cap for the year ending 31 December 2013 is estimated mainly based on (a) the actual information technology staff costs incurred by our Group prior to the Listing; and (b) the expected information technology staff costs on the basis of the estimated time and work to be shared with the Non-listed Group after the Listing. The annual caps for the two years ending 31 December 2014 and 31 December 2015 are estimated based on the annualised expected information technology staff costs for the year ending 31 December 2013 to be shared with the Non-listed Group after the Listing with a 5% annual increment.

The decrease in the fee relating to marketing from the year ended 31 December 2011 to the year ended 31 December 2012 was mainly due to the segregation of the marketing function between our Group and the Non-listed Group in 2012. It is intended that only a minimum number of marketing staff will provide services to the Non-listed Group after the Listing. The annual cap for the year ending 31 December 2013 is estimated mainly based on (a) the actual marketing staff costs incurred by our Group prior to the Listing; and (b) the expected marketing staff costs on the basis of the estimated time and work to be shared with the Non-listed Group after the Listing. The annual caps for the two years ending 31 December 2014 and 31 December 2015 are estimated based on the annualised expected marketing staff costs for the year ending 31 December 2013 to be shared with the Non-listed Group after the Listing with a 5% annual increment.

Prior to July 2012, Mr. Liu Stefan and Mr. Ng Chee Hung Frederick, both being our executive Directors, had taken up several management positions in our Group and the Non-listed Group. Therefore, our Group charged back part of the executive management costs by reference to the time they spent on management from the Non-listing Group. The relatively large executive

CONNECTED TRANSACTIONS

management fee for the year ended 31 December 2011 was mainly due to increase in the overall staff bonus paid to the executives. Since July 2012, Mr. Ng has spent most of his time on our Group's operations. As Mr. Liu will continue to be the chairman and a non-executive director of certain members of the Non-listed Group, his remuneration will be separately taken up by the Non-listed Group since July 2012. Therefore, no service fee in relation to the executive management has been charged since July 2012.

Disbursements represent the miscellaneous expenses incurred by our staff when they provide services to the Non-listed Group. During the Track Record Period, our Group charged the Shared Services at a 10% markup on members of the Non-listed Group except for KVB AM (HK), KVB Securities and KVB CA to which our Group charged the Shared Services at cost taking into consideration that they were relatively smaller scale of operations and made loss in the previous years. Our Group has stopped providing the Shared Services to KVB AM (HK) and KVB Securities since May 2011 and to KVB CA since July 2012.

General

As each of KVB Holdings and its subsidiaries is a Connected Person of our Company after the Listing, services provided to members of the Non-listed Group by our Group under the Shared Services Agreement will constitute continuing connected transactions of our Company pursuant to Rule 20.14 of the GEM Listing Rules.

Our Directors (including our independent non-executive Directors) and the Sponsor consider that the Shared Services Agreement has been entered into on an arm's length basis and in the ordinary and usual course of business, and that the transactions contemplated under the Shared Services Agreement and the annual caps are on normal commercial terms, fair and reasonable and in the interests of our Group and our Shareholders as a whole.

Given that each of the percentage ratios (other than the profit ratio) for the transactions contemplated under the Shared Services Agreement, where appropriate, calculated by reference to Rule 19.07 of the GEM Listing Rules, is expected on an annual basis to be less than 25% and the annual consideration is less than HK\$10 million, the transactions contemplated under the Shared Services Agreement will be exempt from the independent Shareholders' approval requirements pursuant to Rule 20.34(1) of the GEM Listing Rules and in the absence of the waiver granted by the Stock Exchange, will be subject to the reporting, annual review and announcement requirements under Chapter 20 of the GEM Listing Rules.

2. The continuing connected transactions below are subject to the reporting, annual review, announcement and independent Shareholders' requirements

(a) Office Licence Agreement

Our Group has from time to time provided the sharing of office premises (the "Office Licence") to the Non-listed Group in the ordinary and usual course of business and it is anticipated that the Non-listed Group will continue to engage our Group to provide the Office Licence in the ordinary and usual course of business.

CONNECTED TRANSACTIONS

Our Company entered into an office licence agreement on 18 December 2012 and a supplemental agreement dated 3 June 2013 with KVB Holdings (together, the “**Office Licence Agreement**”), pursuant to which our Company has agreed to provide or procure our subsidiaries to provide the Office Licence to the Non-listed Group subject to the terms and conditions of the Office Licence Agreement.

There are four existing office premises licensed by our Group to the Non-listed Group, details of which are set out below:

(i) *Office premises in New Zealand*

KVB NZ has licensed the use of part of its office in New Zealand situated at Level 10, Tower 1, The National Bank Centre, 205-209 Queen Street, Auckland, New Zealand to KVB FX, a wholly owned subsidiary of KVB Holdings. This licence will continue after the Listing.

(ii) *Office premises in Australia*

KVB AU has licensed the use of part of its offices in Australia situated at Suites 18B1 and 18E, Level 18, Citigroup Centre, 2 Park Street, Sydney, Australia to KVB FX Pty and Part Level 38, 120 Collins Street, Melbourne, Australia to KVB FX Pty and KVB Asset Management Company Limited. Both KVB FX Pty and KVB Asset Management Company Limited are wholly owned subsidiaries of KVB Holdings. These licences will continue after the Listing.

(iii) *Office premises in Hong Kong*

KVB HK has licensed the use of part of its office in Hong Kong situated at Suites 7501 & 7508, 75th Floor, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong to KVB Securities, KVB AM (HK) and KVB Kunlun Trading (Hong Kong) Limited, all of which are wholly owned subsidiaries of KVB Holdings. This licence will continue after the Listing.

Pricing standard

The aggregate licence fees payable by the Non-listed Group under the Office Licence are determined with reference to the approximate area occupied by KVB Holdings and/or the relevant subsidiaries of KVB Holdings, the monthly rental of the entire office premises as at the date of signing of the relevant tenancy agreements with reference to the then prevailing market price, together with the property management fees, government rates and rent and the currency fluctuation.

The landlord has agreed to our Group’s sharing of occupation of the office premises in New Zealand with related body corporate. The respective landlords of the office premises in Sydney and Melbourne have agreed to our Group’s sharing of occupation of these office premises with related body corporate. Consents have been obtained from the landlord for sharing of the office premises in Hong Kong.

CONNECTED TRANSACTIONS

The reimbursement received from related companies is less than our Group's gross rental payment. The remaining portion represents the amounts of minimum lease rental of our Group charged to the income statement for the year ended 31 December 2011.

Historical figures

During the two years ended 31 December 2011 and 31 December 2012, our Group received in aggregate approximately HK\$9.8 million and HK\$10.8 million, respectively, from the Non-listed Group in respect of the Office Licence. Due to the nature of the Office Licence, the rental reimbursement recovered from the Non-listed Group was offset against the office rental expense of our Group directly.

Our Group received a higher average amount of licence fees under the Office Licence from the Non-listed Group for the year ended 31 December 2012 as compared to the year ended 31 December 2011 mainly due to the extra space of our overseas offices being utilised by the Non-listed Group.

Annual caps

The proposed cap amounts of the fees to be received by our Group under the Office Licence Agreement for each of the three years ending 31 December 2013, 31 December 2014 and 31 December 2015 are HK\$11.4 million, HK\$11.9 million and HK\$12.5 million, respectively.

The aforesaid annual caps are based on the estimation of the areas to be occupied by our Group and the Non-listed Group under the Office Licence and include the reimbursement of office rates, management fees, and electricity and cleaning costs.

CONNECTED TRANSACTIONS

Set out below is a summary of the office premises of our Group in New Zealand, Australia and Hong Kong:

Location	Property	Lease period		Year	Total rental amount ^(Note 1) HK\$' million	Total rent recovered/to be recovered from the Non-listed Group ^(Note 1) HK\$' million
		from	to			
New Zealand	The National Bank Centre	1 January 2009	17 June 2011	2011	1.1	0.5
		18 June 2011	17 June 2017	2012	1.1	0.4
				2013	1.2	0.5
				2014	1.2	0.5
				2015	1.3	0.5
Australia	Citigroup Centre, Sydney	1 January 2009	17 June 2011	2011	2.3	1.5
		16 June 2011	13 July 2014	2012	2.7	1.7
				2013	2.8	1.8
				2014 ^(Note 2)	2.9	1.9
				2015 ^(Note 2)	3.1	2.0
	120 Collins Street, Melbourne	1 January 2009	31 May 2014	2011	3.4	2.4
				2012	3.5	3.0
				2013	3.7	3.2
				2014 ^(Note 2)	3.9	3.3
				2015 ^(Note 2)	4.1	3.5
Hong Kong	International Commerce Centre	1 October 2010	30 September 2015	2011	6.7	3.6
				2012	6.7	3.6
				2013	7.1	3.7
				2014	7.4	3.9
				2015	7.8	4.1

Notes:

- The above rental amounts recovered/to be recovered from the Non-listed Group exclude office rates, management fees, and electricity and cleaning costs which (a) amounted to approximately HK\$1.8 million and HK\$2.0 million for the two years ended 31 December 2011 and 31 December 2012, respectively; and (b) are expected to amount to HK\$2.2 million, HK\$2.3 million and HK\$2.4 million for the three years ending 31 December 2013, 31 December 2014 and 31 December 2015, respectively.*
- Estimated rental amounts are based on the terms of existing lease agreements.*

As each of KVB Holdings and its subsidiaries is a Connected Person of our Company after the Listing, services provided to members of the Non-listed Group by our Group under the Office Licence Agreement will constitute continuing connected transactions of our Company pursuant to Rule 20.14 of the GEM Listing Rules.

CONNECTED TRANSACTIONS

Our Directors (including our independent non-executive Directors) and the Sponsor consider that the Office Licence Agreement has been entered into on an arm's length basis and in the ordinary and usual course of business, and that the transactions contemplated under the Office Licence Agreement and the annual caps are on normal commercial terms, fair and reasonable and in the interests of our Group and our Shareholders as a whole.

Given that each of the percentage ratios (other than profit ratios) for the transactions contemplated under the Office Licence Agreement, where applicable, calculated by reference to Rule 19.07 of the GEM Listing Rules, is expected on an annual basis to be less than 25% but the annual consideration is more than HK\$10 million, the transactions contemplated under the Office Licence Agreement will constitute non-exempt continuing connected transactions of our Company after the Listing and in the absence of the waiver granted by the Stock Exchange, will be subject to the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

(b) Cash Dealing Agreement

Our Group has from time to time provided cash dealing services to the subsidiaries of KVB Holdings, namely, KVB FX, KVB FX Pty and KVB CA. These services include, in particular, the provision of currency exchange at a rate determined at the time of the transaction (the "Cash Dealing Services").

The Cash Dealing Services are provided at fair value at the relevant time of the transaction, which is equivalent to the currency exchange rate as quoted by our forex data feed with the prevailing market rates fed in order of priority from different market makers at the relevant time of the transaction without additional service or administration fee. Our Group does not record any profit or loss at inception, unless the transaction had been revalued with reference to prevailing exchange rate or our Group subsequently hedges the transacted position to market makers. Our Group generates income by 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.

Through providing the Cash Dealing Services to the Non-listed Group, our Group is rewarded the spread between the price quoted to KVB FX, KVB FX Pty and KVB CA and the price offered by market makers. From the perspective of our Group, dealing with the Non-listed Group offers the benefit of lower default risk as our Group and the Non-listed Group are fellow subsidiaries. From the perspective of the Non-listed Group, not only does it allow for the hedging of its cash positions and meeting settlement obligations, it also saves time and cost to build a professional dealing team and establish dealing facilities with market makers to fulfil its settlement obligations. In view of the above benefits, despite the heavy reliance on our Group as the market maker, it is anticipated that each of KVB FX, KVB FX Pty and KVB CA will continue to engage KVB NZ to provide the Cash Dealing Services in the ordinary and usual course of business.

CONNECTED TRANSACTIONS

KVB NZ entered into a cash dealing agreement on 18 December 2012 and a supplemental agreement dated 3 June 2013 with KVB FX, KVB FX Pty and KVB CA (together, the “**Cash Dealing Agreement**”), pursuant to the Cash Dealing Agreement, KVB NZ has agreed to provide the Cash Dealing Services to each of KVB FX, KVB FX Pty and KVB CA, subject to the terms and conditions of the Cash Dealing Agreement. The Cash Dealing Services will continue after the Listing.

Pricing standard

The trading volume refers to the actual trading volume of the Cash Dealing Services (converted into USD) conducted by KVB FX, KVB FX Pty and KVB CA through KVB NZ during the relevant period.

Historical figures

During the two years ended 31 December 2011 and 31 December 2012, the aggregate trading volume of KVB FX, KVB FX Pty and KVB CA in respect of the Cash Dealing Services amounted to approximately US\$2.7 billion and US\$2.7 billion, respectively. Our Directors consider that such trading volume of the Cash Dealing Services was not significant in the overall forex industry.

The trading volume for the year ended 31 December 2012 was comparable to that for the year ended 31 December 2011.

For the two years ended 31 December 2011 and 31 December 2012, income derived from the Cash Dealing Services amounted to approximately HK\$12,602,000 and HK\$9,310,000, respectively, representing approximately 8.1% and 7.5% of our Group’s total income, respectively.

Annual caps

The proposed cap amounts of the aggregate trading volume of KVB FX, KVB FX Pty and KVB CA under the Cash Dealing Agreement for each of the three years ending 31 December 2013, 31 December 2014 and 31 December 2015 are US\$2.9 billion, US\$2.9 billion and US\$2.9 billion, respectively.

The proposed annual cap for the year ending 31 December 2013 is based on the actual historical trading volume for the year ended 31 December 2012. The proposed annual caps for the two years ending 31 December 2014 and 31 December 2015 are the same as the proposed annual cap for the year ending 31 December 2013 which is based on the expected demand of KVB FX, KVB FX Pty and KVB CA for the Cash Dealing Services for the respective years. Although the proposed annual caps are determined based on the estimated trading volume, the level of total income derived from the Cash Dealing Services may not correlate with that of the trading volume since the income generated by our Group’s trading activities depends on a multitude of factors including, but not limited to, the market conditions (i.e. the volatility of the market at the time the

CONNECTED TRANSACTIONS

transaction is done), our client's buy/sell direction, the type of product traded and the price quoted by market maker at the time of trade execution for a particular product. The income to be derived from the Cash Dealing Services cannot be estimated before entering into hedging positions with market makers. Our Directors consider that trading volume is an appropriate basis for the annual caps of the Cash Dealing Services as the trading volume with KVB FX, KVB FX Pty and KVB CA can be controlled and estimated before entering into a cash dealing transaction.

As each of KVB FX, KVB FX Pty and KVB CA is a wholly owned subsidiary of KVB Holdings and thus Connected Person of our Company after the Listing, services provided by KVB NZ to KVB FX, KVB FX Pty and KVB CA under the Cash Dealing Agreement will constitute continuing connected transactions of our Company pursuant to Rule 20.14 of the GEM Listing Rules.

Our Directors (including our independent non-executive Directors) and the Sponsor consider that the Cash Dealing Agreement has been entered into on an arm's length basis and in the ordinary and usual course of business, and that the transactions contemplated under the Cash Dealing Agreement and the annual caps are on normal commercial terms, fair and reasonable and in the interests of our Group and our Shareholders as a whole.

Given that each of the percentage ratios (other than profit ratios) for the transactions contemplated under the Cash Dealing Agreement, where applicable, calculated by reference to Rule 19.07 of the GEM Listing Rules, is expected on an annual basis to be more than 25% and the annual consideration is more than HK\$10 million, the transactions contemplated under the Cash Dealing Agreement will constitute non-exempt continuing connected transactions of our Company after the Listing and in the absence of the waiver granted by the Stock Exchange, will be subject to the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

In the event that the annual caps of the Cash Dealing Services are exceeded in the future, our Company will comply with the reporting, announcement and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

APPLICATION FOR WAIVER

Pursuant to Rule 20.42(3) of the GEM Listing Rules, the Sponsor has applied for a waiver on behalf of our Company such that (a) the transactions contemplated under the Shared Services Agreement will be exempt from strict compliance with the announcement requirements, and (b) the transactions contemplated under the Office Licence Agreement and the Cash Dealing Agreement will be exempt from strict compliance with the announcement and independent Shareholders' approval requirements, under Chapter 20 of the GEM Listing Rules for a period of three years ending on 31 December 2015 and the Stock Exchange has granted a waiver in relation thereto. Our Company will comply with the relevant requirements under Chapter 20 of the GEM Listing Rules, including Rules 20.35(1), 20.35(2), 20.36, 20.37, 20.38, 20.39 and 20.40 of the GEM Listing Rules, upon the Listing.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS

Our Board consists of two executive Directors, two non-executive Directors and three independent non-executive Directors. The following table sets forth certain information in respect of our Directors:

Name	Age	Position	Date of joining our Group	Date of appointment as Director
Mr. LIU Stefan (劉欣諾先生)	46	Chief executive officer Executive Director	6 September 2001	9 November 2010
Mr. NG Chee Hung Frederick (吳棋鴻先生)	57	Executive Director	1 August 2006	15 April 2011
Mr. Li	59	Chairman Non-executive Director	6 September 2001	30 August 2011
Mr. Stephen Gregory McCOY	60	Non-executive Director	16 October 2006	15 April 2011
Ms. ZHAO Guixin (趙桂馨女士)	49	Independent non-executive Director	15 April 2011	15 April 2011
Mr. Cornelis Jacobus KEYSER ^(Note)	55	Independent non-executive Director	1 December 2003	15 April 2011
Mr. LIN Wenhui (林文輝先生)	34	Independent non-executive Director	16 July 2011	16 July 2011

Note: Mr. Keyser left our Group as a managing director (designate proposed banking division) in April 2008, which was more than two years prior to his appointment as our independent non-executive Director. Furthermore, the Sponsor is not aware of other factors which may affect his independence as our independent non-executive Director. Therefore, the Sponsor considers that Mr. Keyser's previous employment with our Group does not affect his independence pursuant to Rule 5.09 of the GEM Listing Rules.

Executive Directors

Mr. LIU Stefan (劉欣諾先生), aged 46, is the chief executive officer of our Company and our executive Director. Mr. Liu has been a director of KVB NZ, KVB AU and KVB HK since September 2001, August 2002 and June 2004, respectively. Mr. Liu is one of the responsible officers of KVB HK. Mr. Liu is also a director of each of LXL Capital I, LXL Capital II, LXL Capital III and LXL Capital

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

IV. Mr. Liu was appointed the managing director of our Group in March 2006 and the country manager of New Zealand and Australia in August 2011. Mr. Liu is responsible for the overall management and strategic development of our Group. Mr. Liu is also a director of KVB Holdings and members of the Non-listed Group. Before joining our Group, Mr. Liu served as the managing director of Aiming International (New Zealand) Co. Limited from August 1997 to August 2001 and was responsible for fostering the development plan, structuring investment direction and strategy, liaising and maintaining relationships with counterparties and searching for and maintaining public relationship with potential strategic investors. Mr. Liu was the deputy manager of Tianjin Tai Ying International Trade Company Limited (天津泰英國際貿易有限公司) from February 1996 to February 1998 and was responsible for marketing activities in the PRC and liaising with overseas traders, the deputy manager of Tianjin Feibiao Textiles Company Limited (天津飛彪紡織品有限公司) from April 1995 to February 1996 and was responsible for market analysis of imported raw materials for textile in the PRC, the senior manager of the Tianjin Office of American Trade and Exhibition International Company (美國展貿國際公司) from October 1993 to April 1995 and was responsible for managing the expansion of the PRC market and developing relationships with marketing firms and the assistant manager of Tianjin Liming Cosmetics Joint Industry Company (天津麗明化妝品合營工業公司) from July 1989 to March 1993 and was responsible for market analysis, expansion of market and training for corporate clients. With his previous and current positions in our Group and other companies, Mr. Liu has obtained over 10 years of experience in the forex market which is relevant to the management, operation and development of our Group. Mr. Liu obtained his bachelor's degree in arts from the Tianjin Foreign Studies University (天津外國語大學) in July 1989. Over the past three years, Mr. Liu has not been a director of any listed companies. Mr. Liu has confirmed that save as disclosed above, there is no information required to be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules and there are no other matters in connection with his appointment which need to be brought to the attention of our Shareholders.

Mr. NG Chee Hung Frederick (吳棋鴻先生), aged 57, is our executive Director. Mr. Ng joined our Group in August 2006 and has been an executive director of KVB HK since June 2009. Mr. Ng is responsible for managing the operations of KVB HK and the treasury and dealing functions of our Group. Mr. Ng is also the executive director and one of the responsible officers of each of KVB HK, KVB Securities and KVB AM (HK). Mr. Ng has over 25 years of experience in the financial services industry. Before joining our Group, Mr. Ng had worked at corporations in Hong Kong, Toronto, Tokyo, Singapore and Shanghai. From 2002 to 2006, Mr. Ng was the managing partner of Quantitative Asset Management Group which was engaged in asset management and he was responsible for managing and overseeing daily operations including all trade execution and reconciliation. From June 1992 to January 2002, Mr. Ng was employed with Credit Agricole Group (a banking group based in France) and served in various positions including vice president and regional forex manager – North Asia, senior vice president and head of forex trading hub – Asia, treasurer – China, and head of sales of Greater China and assistant general manager of capital markets. From October 1978 to January 1992, Mr. Ng was employed with the Royal Bank of Canada and last held the position of forex manager. Mr. Ng is a certified hedge fund specialist conferred upon by the Hedge Fund Association of Canada in September 2003. Over the past three years, Mr. Ng has not been a director of any listed companies. Mr. Ng has confirmed that save as disclosed above, there is no information required to be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules and there are no other matters in connection with his appointment which need to be brought to the attention of our Shareholders.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Non-executive Directors

Mr. LI Zhi Da (李志達先生), aged 59, is the chairman of our Board and our non-executive Director. Mr. Li is one of the founders of our Group and one of our Controlling Shareholders. Mr. Li was a director of each of KVB NZ and KVB HK since their respective incorporation until May 2009 and June 2009, respectively. Mr. Li was appointed a Director since our incorporation in November 2010 until April 2011 as Mr. Li wanted to spend more time with Ms. Tsui as she fell ill in April 2011. When Ms. Tsui recovered slightly and as the management of our Group considered appropriate to have one of our Controlling Shareholders to sit on our Board, Mr. Li was reappointed and designated as the chairman of our Board and our non-executive Director in August 2011. Mr. Li is also a director of each of LXL Capital I and LXL Capital II. Mr. Li was the legal representative of a private company engaged in the business of production and sales of cosmetics in the PRC, including the brand “Mininurse”. Since the disposal of the cosmetics business in December 2003, Mr. Li has diversified his investments into other business areas including tourism business in the PRC. Mr. Li obtained his master’s degree in project management from the Zhejiang University (浙江大學) in March 1994. Over the past three years, Mr. Li has not been a director of any listed companies. Mr. Li has confirmed that save as disclosed above, there is no information required to be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules and there are no other matters in connection with his appointment which need to be brought to the attention of our Shareholders.

Mr. Stephen Gregory McCoy, aged 60, is our non-executive Director. Mr. McCoy joined our Group in October 2006 as the senior manager of operations and was later appointed the country manager of Australia in 2008. Mr. McCoy is also a director of LXL Capital III. Mr. McCoy was appointed our executive Director in April 2011 and was later redesignated as our non-executive Director in June 2011 as he might not have sufficient time to commit to the day-to-day management of our Company due to family reason. Before joining our Group, Mr. McCoy worked at Arab Bank Australia Limited as an internal auditor from May 2002 to December 2003 and later as the head of operations from January 2004 to October 2006 and was responsible for managing the operations department of the bank including treasury settlements, retail operations, loan administration, office administration, trade finance and product compliance in line with regulatory authorities and policies and procedures of the bank and before that, Mr. McCoy worked at Westpac Banking Corporation for over 30 years from February 1969 to April 2001 and last held the position of manager of operational risk. With the previous and current positions held by Mr. McCoy in our Group and other companies, Mr. McCoy has obtained over 40 years of combined experience in the financial services industry which is relevant to the operation and development of our Group. Over the past three years, Mr. McCoy has not been a director of any listed companies. Mr. McCoy has confirmed that save as disclosed above, there is no information required to be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules and there are no other matters in connection with his appointment which need to be brought to the attention of our Shareholders.

Independent non-executive Directors

Ms. ZHAO Guixin (趙桂馨女士), aged 49, is our independent non-executive Director. Ms. Zhao joined our Group in April 2011. Ms. Zhao is currently the business development manager of Great Pacific Finance Pty Limited in Australia and is responsible for assisting in sales strategy and creating

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

financial models for all business development initiatives. From June 2005 to July 2007, Ms. Zhao worked at Tianjin Jiandu Investment & Development Co. Ltd. (天津建都投資發展有限公司) which was engaged in property and investment and she was responsible for providing consultation services in project financing, cooperation in public affairs and international investment matters. From May 2003 to August 2007, Ms. Zhao also provided consultation services in finance and investment related matters to Tianjin Wanhe Investment & Development Co. Ltd. (天津萬和投資發展有限公司) which was engaged in property and investment. From July 2001 to October 2003, Ms. Zhao was appointed the general manager of the audit department of China Citic Bank, Tianjin branch and was responsible for managing the overall performance of the audit department, implementing policies and procedures and other management work. Ms. Zhao has over 20 years of experience in accounting and auditing matters including but not limited to financial analysis, financial management, asset management, assessment and auditing of financial positions and involvement in financial and auditing decision making process. Ms. Zhao completed the course in economics and management organised by the Party School of Central Committee of the Communist Party of China (中共中央黨校) in December 1996. Ms. Zhao further completed the course in business administration organised by Nankai University (南開大學) in September 1999 and obtained her master's degree in arts in international relations in economy and trade from The Flinders University of South Australia in October 2002. Ms. Zhao was assessed and awarded the qualification of accountant by the Tianjin branch of the Bank of China in 1992. Over the past three years, Ms. Zhao has not been a director of any listed companies. Ms. Zhao has confirmed that save as disclosed above, there is no information required to be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules and there are no other matters in connection with her appointment which need to be brought to the attention of our Shareholders.

Mr. Cornelis Jacobus KEYSER, aged 55, is our independent non-executive Director. Mr. Keyser first joined our Group in December 2003 as a senior consultant. In June 2005, he was appointed as the joint Group managing director (group operations and treasury) and managing director (designate proposed banking division) and held that position until he left our Group in April 2008. Since March 2003, Mr. Keyser has been a director of Keyser Merchant & Capital Finance (New Zealand) Limited which is engaged in the provision of consultation services and he is responsible for managing all aspects of such company and acts as a consultant. From July 1999 to August 2002, Mr. Keyser held the position of group treasurer to Gensec Ltd. and Gensec Bank. From September 1996 to March 1997, Mr. Keyser worked at the Swabou Building Society Group of Companies as the group managing director and was responsible for the operations of the group. From May 1990 to August 1992, Mr. Keyser was appointed the managing director of Keyser Trading (Pty) Limited and from September 1992 to June 1999, he was appointed the managing director of Keyser Merchant and Capital Finance (Pty) Limited. Mr. Keyser is a member of the Institute of Directors in New Zealand Inc. Mr. Keyser has over 20 years of experience in the financial industry. Mr. Keyser obtained his bachelor's degree in industrial psychology, his honours degree in economics and his master's degree in economics from the Rand Afrikaans University in April 1981, April 1982 and April 1983, respectively. Over the past three years, Mr. Keyser has not been a director of any listed companies. Mr. Keyser has confirmed that save as disclosed above, there is no information required to be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules and there are no other matters in connection with his appointment which need to be brought to the attention of our Shareholders.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. LIN Wenhui (林文輝先生), aged 34, is our independent non-executive Director. Mr. Lin joined our Group in July 2011. Mr. Lin has been a senior auditor of Deloitte Touche Tohmatsu in Beijing since September 2011. From April 2009 to September 2011, Mr. Lin was a manager of RSM China Certified Public Accountants (中瑞岳華會計師事務所). Mr. Lin served as a project manager in the taxation and accounting services department of Reanda Certified Public Accountants (利安達會計師事務所有限公司) from September 2004 to March 2006 and a manager assistant in the audit department of the same firm from April 2006 to December 2008. From August 2002 to September 2004, Mr. Lin worked in the accounting department of the head company of the Beijing Shougang Oxygen Plant (北京首鋼氧氣廠) which was engaged in the production and sales of oxygen and other gases for industrial enterprises. Mr. Lin obtained his bachelor's degree in accounting from the Harbin University of Commerce (哈爾濱商業大學) in July 2002. Mr. Lin obtained his certificate of accounting professional from the Finance Bureau of Beijing (北京市財政局) in June 2003 and passed the PRC's national accounting examinations and was awarded the certificate issued by the Committee of the Registered Accountant Examination of the Ministry of Finance (財政部註冊會計師考試委員會) in April 2005. Mr. Lin has been a member of the Chinese Institute of Certified Public Accountants recognised by the Ministry of Finance of the PRC (中華人民共和國財政部) since April 2008. Over the past three years, Mr. Lin has not been a director of any listed companies. Mr. Lin has confirmed that save as disclosed above, there is no information required to be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules and there are no other matters in connection with his appointment which need to be brought to the attention of our Shareholders.

Each of our Directors has confirmed that he/she does not have any business or interest which competes or may compete, directly or indirectly, with the business of our Group.

Since the incorporation of our Company, two Directors had tendered their resignation. Mr. Gregory Patrick Boland resigned as executive Director in August 2011 due to personal reasons and Mr. Ba Shusong resigned as independent non-executive Director in August 2012 in response to the directives pursuant to the latest internal circular issued by the Development Research Centre of the State Council of the PRC (國務院發展研究中心), the exact details of the internal circular have not been disclosed to us by Mr. Ba, but which our Directors believe to be related to the management of part-time undertakings by senior civil servants in the PRC. Mr. Boland and Mr. Ba have respectively confirmed that they had no disagreement with our Board and there is no other matter relating to their respective resignation which needs to be brought to the attention of our Shareholders.

Our Board will play an active role in managing our Company, meet regularly through physical meeting, teleconference or videoconference and not delegate matters to our executive Directors or the senior management personnel of our Group to an extent which would significantly hinder or reduce the ability of our Board as a whole to perform its functions.

Save as disclosed above, there is no other information in respect of our Directors to be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules and to be brought to the attention of our Shareholders.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

SENIOR MANAGEMENT

Name	Age	Position	Date of joining our Group
Ms. ZHANG Rongjun (張溶君女士)	47	Regional financial controller of New Zealand and Australia	9 December 2002
Mr. HUANG Songyuan (黃頌源先生)	36	Director of global margin business	1 August 2002
Mr. SO Chi Hang Stephen (蘇志恒先生)	46	Head of investment of KVB AU	1 May 2003
Mr. WAI Chi Hong Christopher (韋志康先生)	48	Project management officer	15 April 2007
Ms. Tracy Marie BYRNE	40	Head of risk and compliance	6 December 2010

Ms. ZHANG Rongjun (張溶君女士), aged 47, is the regional financial controller of New Zealand and Australia of our Group. Ms. Zhang joined our Group in December 2002 as the financial controller. Ms. Zhang has also been a director of KVB NZ since May 2009. From December 1997 to July 2002, Ms. Zhang served as a senior accountant at HWI Limited Chartered Accountants and was responsible for preparing financial statements and tax returns and providing tax advice. Ms. Zhang has over 14 years of experience in accounting matters in New Zealand. Ms. Zhang obtained her bachelor's degree in accounting from the Unitec Institute of Technology in April 2000. Ms. Zhang has been a member of the Institute of Chartered Accountants of New Zealand since January 2002. Over the past three years, Ms. Zhang has not been a director of any listed companies.

Mr. HUANG Songyuan (黃頌源先生), aged 36, is our director of global margin business. Mr. Huang joined our Group in August 2002 as an executive accountant of KVB NZ and was responsible for general accounting duties, book-keeping and financial reports. Mr. Huang was the manager of treasury strategy of KVB NZ and was responsible for the implementation of its dealing system and the day-to-day running of its global forex dealing operations and all its associated financial management, and is currently one of the responsible officers of KVB HK. Mr. Huang obtained his bachelor's degree in accounting from the Sun Yat-Sen University (中山大學) in June 1999, his master's degree in international business from the Auckland Institute of Studies at St. Helens, New Zealand in December 2000 and his graduate diploma in commerce from the University of Auckland in May 2002. Mr. Huang became a chartered financial analyst of the CFA Institute in September 2006. Over the past three years, Mr. Huang has not been a director of any listed companies.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. SO Chi Hang Stephen (蘇志恒先生), aged 46, is the head of investment of KVB AU. Mr. So joined our Group in May 2003 as a senior sales executive of margin forex of KVB AU. Mr. So is at present a director of KVB AU. Before joining our Group, Mr. So worked at The Hong Kong Chinese Bank, Limited and Lippo Securities Holdings Limited from March 1994 to December 2002 and was responsible for providing investment advice and dealing with private clients and retail clients, first as a senior investment consultant in The Hong Kong Chinese Bank, Limited and thereafter as a senior manager of the global investment division of Lippo Securities Holdings Limited. Mr. So has over 16 years of experience in advising clients on financial products ranging from securities, indices and stock futures and options to other financial products. Mr. So obtained his bachelor of arts degree from the University of Sydney, Australia in April 1992. Mr. So also obtained the diploma in financial services issued by the Australian Financial Markets Association in 2003. Over the past three years, Mr. So has not been a director of any listed companies.

Mr. WAI Chi Hong Christopher (韋志康先生), aged 48, is our project management officer. Mr. Wai joined our Group in April 2007 as the senior project manager of KVB HK. Before joining our Group, Mr. Wai worked as technical services manager, senior project manager and engineer for various private companies and the government of Hong Kong and was responsible for overseeing the day-to-day operations of in-house information technology support and maintenance and providing support of graphics and geographic information system and engineering data management solution and various design automation projects covering printed circuit board and mechanical design. Mr. Wai has over 20 years of experience in information technology industry specialising in project implementation of enterprise information systems. Mr. Wai obtained his bachelor's degree in applied science from the University of Toronto in June 1989. Over the past three years, Mr. Wai has not been a director of any listed companies.

Ms. Tracy Marie BYRNE, aged 40, has been our head of risk and compliance since she joined our Group in December 2010. Before joining our Group, Ms. Byrne was an audit leader of the Audit Office of New South Wales from July 2010 to November 2010 and was responsible for providing advice on accounting and audit matters. From December 2006 to April 2010, Ms. Byrne served as the chief executive officer and the executive director of Dais Financial Services and was responsible for the general operations of such company which included businesses in investment management and mortgage management services. During her employment with Dais Financial Services, Ms. Byrne was also involved in the licensing related matters and the design and implementation of such company's compliance policies and procedures, all of which are relevant to her current role as our head of risk and compliance. From March 2003 to November 2006, Ms. Byrne worked at Explorer Group Limited and Direct Portfolio Services Limited, initially as a part-time consultant of such companies for compliance related matters and eventually as a full-time general manager responsible for establishing and running their businesses which included the management of various investment schemes. From May 2004 to April 2007, Ms. Byrne was the finance director and a member of the finance committee of the Special Olympics Australia on a voluntary basis. From December 2002 to August 2004, Ms. Byrne was a director in the audit division of WHK Greenwoods (now known as Crowe Horwath Sydney). From November 1995 to November 2002, Ms. Byrne served as a manager in the assurance division of Ernst & Young Services Pty Limited. Ms. Byrne has over 16 years of experience in the accounting and financial services industry in Australia. Ms. Byrne has been a chartered accountant in Australia since December 2003 and a member of the Association of Certified Anti-Money Laundering

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Specialists since February 2012. Ms. Byrne obtained her bachelor's degree in accounting from the University of Western Sydney in May 1995. Over the past three years, Ms. Byrne has not been a director of any listed companies.

Our Group engaged a chief financial officer in July 2012 whose employment with us ceased in April 2013 due to personal reasons. Our ex-chief financial officer has confirmed that there was no disagreement with our Board and there is no other matter relating to the resignation which needs to be brought to the attention of our Shareholders. The works of our ex-chief financial officer have been taken up by Ms. Zhang Rongjun, the regional financial controller of New Zealand and Australia of our Group.

COMPANY SECRETARY

Ms. CHENG Wing Sze (鄭詠詩女士) has been our Company secretary since she joined our Group in May 2012. Ms. Cheng is responsible for the company secretarial matters of our Group. Before joining our Group, Ms. Cheng was the company secretary of New Capital International Investment Limited (now known as China Development Bank International Investment Limited) (a company engaged in investment and is listed on the Stock Exchange with stock code 1062) from July 2008 to February 2011 and was responsible for the group's company secretarial matters. From March 2006 to April 2008, Ms. Cheng worked at Skyfame Reality (Holdings) Limited (a company engaged in property development and is listed on the Stock Exchange with stock code 59) and last held the position of assistant company secretary and was responsible for the group's company secretarial matters. Ms. Cheng has over 10 years of experience in the company secretarial field. Ms. Cheng has been an associate of both the Hong Kong Institute of Company Secretaries (now known as the Hong Kong Institute of Chartered Secretaries) and the Institute of Chartered Secretaries and Administrations in the United Kingdom since June 2005 and an associate of CPA Australia since April 2009. Ms. Cheng obtained her postgraduate diploma in corporate administration from the Hong Kong Polytechnic University in December 2005, her master of business administration from The University of Adelaide, Australia in December 2007 and her master of accounting from Curtin University of Technology, Australia (now known as Curtin University) in August 2011. Over the past three years, Ms. Cheng has not been a director of any listed companies.

DIRECTORS' REMUNERATION

We reimburse our Directors for expenses which are necessarily and reasonably incurred for providing services to our Company or executing their functions in relation to our operations. Our executive Directors are also employees and receive, in their capacity as employees, compensation in the form of salaries and other allowances and benefits in kind.

The aggregate of the remuneration paid and benefits in kind granted to our Directors by any member of our Group for the year ended 31 December 2012 was approximately HK\$3.8 million.

We estimate the aggregate remuneration payable to, and benefits in kind received by, our Directors by any member of our Group for the year ending 31 December 2013 under the arrangements in force as at the date of this prospectus to be approximately HK\$2,306,000.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Further details of the terms of the service agreements of our Directors are set out in the paragraph headed “Particulars of service agreements” in Appendix IV to this prospectus.

BOARD COMMITTEES

Audit committee

Our Company established an audit committee on 18 December 2012 in compliance with Rule 5.28 of the GEM Listing Rules. Written terms of reference in compliance with paragraph C3.3 of the Code has been adopted. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of our Company, nominate and monitor external auditors and provide advice and comments to our Directors. At present, the audit committee of our Company consists of three members, namely, Mr. Lin Wenhui, Ms. Zhao Guixin and Mr. Cornelis Jacobus Keyser. Mr. Lin Wenhui is the chairman of the audit committee.

Remuneration committee

Our Company established a remuneration committee on 18 December 2012 in compliance with Rule 5.34 of the GEM Listing Rules. Written terms of reference in compliance with paragraph B1.2 of the Code has been adopted. The primary duties of the remuneration committee are to evaluate the performance and determine the remuneration packages of our Directors and the senior management of our Group, and evaluate the performance and make recommendations on any other employee benefit arrangement. At present, the remuneration committee of our Company consists of three members, namely, Ms. Zhao Guixin, Mr. Cornelis Jacobus Keyser and Mr. Lin Wenhui. Ms. Zhao Guixin is the chairman of the remuneration committee.

Nomination committee

Our Company established a nomination committee on 18 December 2012. Written terms of reference in compliance with paragraph A5.2 of the Code has been adopted. The primary duties of the nomination committee are to review the structure, size and composition of our Board on a regular basis and make recommendations to our Board regarding nomination of suitable candidate to fill vacancies in our Board. At present, the nomination committee of our Company consists of three members, namely, Ms. Zhao Guixin, Mr. Cornelis Jacobus Keyser and Mr. Lin Wenhui. Ms. Zhao Guixin is the chairman of the nomination committee.

Corporate governance committee

Our Company established a corporate governance committee on 18 December 2012. Written terms of reference in compliance with paragraph D3.1 of the Code has been adopted. The primary duties of the corporate governance committee are to develop and review our Company’s policies and practices on corporate governance and make recommendation to our Board. At present, the corporate governance committee of our Company consists of four members, namely Mr. Cornelis Jacobus Keyser, Mr. Liu Stefan, Ms. Zhao Guixin and Mr. Lin Wenhui. Mr. Cornelis Jacobus Keyser is the chairman of the corporate governance committee.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, our Company has appointed Quam Capital to be our compliance adviser. Pursuant to Rule 6A.23 of the GEM Listing Rules, our compliance adviser will advise us in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (c) where we propose to use the proceeds of the Placing in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares or any other matters under Rule 17.11 of the GEM Listing Rules.

The term of the engagement will commence on the Listing Date and end on the date on which we distribute our annual report as required under Rule 18.03 of the GEM Listing Rules for the second full financial year commencing after the Listing Date.

EMPLOYEES

Overview

As at 31 December 2012, our Group had 60 full-time employees. An analysis by function as at 31 December 2012 is as follows:

Function	Number of employees
Sales and client services	9
Operation	3
Dealing	14
Information technology projects	6
Finance	6
Management	10
Legal, risk and compliance	5
Human resources and administration	4
Marketing	3
Total	<u>60</u>

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Relationship with employees

Our Directors consider that we have maintained good working relationships with our employees. We have not experienced any strikes, work stoppages or material labour disputes which affected our operations.

Staff benefits

KVB NZ is subject to the KiwiSaver scheme, which is a voluntary long-term savings scheme for employees to which employers must contribute in most circumstances. The scheme is governed by various acts of Parliament including the KiwiSaver Act 2006. Pursuant to the scheme, KVB NZ must contribute an amount equal to 3% of an employee's gross salary (not including the KiwiSaver contribution). Our employees in New Zealand are eligible for medical insurance which covers hospital surgery and medical treatment. Any employee who has completed five years of continuous service with our Group by the end of June each year will be eligible to receive NZD1,000 award.

Our employees in Australia follow the Australia health system. Our Group contributes 9% of salary to the employees' selected superannuation fund on a quarterly basis under the Australian government regulatory system. Any employee who has completed five years of continuous service with our Group by the end of June each year will be eligible to receive AUD1,000 award.

In Hong Kong, we operate a defined contribution retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all of our employees in Hong Kong who joined us after the commencement of this ordinance. Contributions are made based on a percentage of the employees' basic salaries. We contribute the lower of HK\$1,250 or 5% of the relevant monthly salary to the MPF Scheme, a contribution to be matched by our employees.

In compliance with the applicable laws, rules and regulations in the PRC, our employees in the PRC enjoy social insurance benefits under such circumstances as old age, illness, work-related injury, unemployment and child-bearing. In addition, our employees in the PRC shall be entitled to healthy check, complementary medical insurance, accidental death and miscellaneous welfare benefits. Long service awards will be given to our employees in the PRC who have completed five years of service and who remain in service at the time when the award is presented.

Share Option Scheme

Our Directors (including our independent non-executive Directors) and employees are entitled to participate in the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in the paragraph headed "Share Option Scheme" in Appendix IV to this prospectus.

SHARE CAPITAL

SHARE CAPITAL

The authorised and issued share capital of our Company are as follows:

<i>Authorised:</i>		<i>HK\$</i>
4,000,000,000	Shares	40,000,000
<i>Issued and to be issued, fully paid or credited as fully paid:</i>		
10,000,000	Share in issue	100,000
1,646,655,000	Shares to be issued under the Capitalisation Issue	16,466,550
<u>343,345,000</u>	Shares to be issued under the Placing	<u>3,433,450</u>
<u><u>2,000,000,000</u></u>	Shares	<u><u>20,000,000</u></u>

Assumptions

The above table assumes the Capitalisation Issue and the Placing become unconditional and the issue of Shares pursuant thereto is made as described herein. It does not take into account any Shares which may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate granted to our Directors to allot and issue or repurchase Shares as referred to in the paragraph headed “General mandate to issue Shares” or the paragraph headed “General mandate to repurchase Shares” in this section, as the case may be.

Ranking

The Placing Shares will rank pari passu in all respects with all of the Shares now in issue or to be issued, and will qualify for all dividends or other distributions declared, made or paid on the Shares after the date of this prospectus, except for the entitlements under the Capitalisation Issue.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in the paragraph headed “Share Option Scheme” in Appendix IV to this prospectus.

SHARE CAPITAL

GENERAL MANDATE TO ISSUE SHARES

Our Directors have been conditionally granted a general unconditional mandate authorising them to exercise all the powers of our Company to allot, issue and deal with the Shares with a total nominal value not exceeding 20% of the aggregate nominal value of our issued share capital immediately following completion of the Capitalisation Issue and the Placing (without taking into account any Shares which may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme), and the number of Shares repurchased by us, if any, pursuant to the repurchase mandate described below.

This general mandate will expire:

- (a) at the conclusion of our Company's next annual general meeting;
- (b) at the expiration of the period within which our Company is required by any applicable law of the Cayman Islands or the Articles to hold the next annual general meeting; or
- (c) when varied, revoked or renewed by passing an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

Further information of this general mandate is summarised in the paragraph headed "Resolutions in writing of our Shareholders" in Appendix IV to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Our Directors have been conditionally granted a general unconditional mandate to exercise all the powers of our Company to repurchase the Shares with an aggregate nominal value of not more than 10% of the total nominal amount of our issued share capital immediately following completion of the Capitalisation Issue and the Placing (without taking into account any Shares which may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme).

This repurchase mandate only relates to repurchases made on the Stock Exchange and/or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose) and which are in accordance with all applicable laws, rules and regulations. A summary of the relevant requirements of the GEM Listing Rules on this repurchase mandate is summarised in the paragraph headed "Repurchase by our Company of our own securities" in Appendix IV to this prospectus.

SHARE CAPITAL

This repurchase mandate will expire:

- (a) at the conclusion of our Company's next annual general meeting;
- (b) at the expiration of the period within which our Company is required by any applicable law of the Cayman Islands or the Articles to hold the next annual general meeting; or
- (c) when varied, revoked or renewed by passing an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

Further information of this repurchase mandate is summarised in the paragraph headed "Resolutions in writing of our Shareholders" in Appendix IV to this prospectus.

SUBSTANTIAL AND SIGNIFICANT SHAREHOLDERS

INTERESTS AND/OR SHORT POSITION DISCLOSEABLE UNDER THE SFO AND OUR SUBSTANTIAL SHAREHOLDERS

As far as our Directors are aware, immediately following completion of the Capitalisation Issue and the Placing (without taking into account any Shares which may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme and which would affect disclosure in this paragraph), the following persons (other than a Director or chief executive of our Company) will have an interest or a short position in the Shares or the underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group:

Name of Shareholder	Company concerned	Nature of interest	Number of securities ^(Note 1)	Approximate percentage of shareholding
KVB Holdings	Our Company	Beneficial owner	1,500,000,000 ^(L)	75.00
Calypso	Our Company	Beneficial owner	106,525,000 ^(L)	5.32
HNA Group International Headquarter (Hong Kong) Co., Limited	Our Company	Interest in controlled corporation	106,525,000 ^{(L) (Note 2)}	5.32
HNA Group Co., Ltd. (海航集團有限公司)	Our Company	Interest in controlled corporation	106,525,000 ^{(L) (Note 2)}	5.32
Yangpu Jianyun Investment Co., Ltd. (洋浦建運投資有限公司)	Our Company	Interest in controlled corporation	106,525,000 ^{(L) (Note 2)}	5.32
Hainan Traffic Administration Holding Co., Ltd. (海南交管控股有限公司)	Our Company	Interest in controlled corporation	106,525,000 ^{(L) (Note 2)}	5.32
Shengtang Development (Yangpu) Co., Ltd. (盛唐發展(洋浦)有限公司)	Our Company	Interest in controlled corporation	106,525,000 ^{(L) (Note 2)}	5.32
Labour Union of Hainan Airlines Co., Ltd. (海南航空股份有限公司工會委員會)	Our Company	Interest in controlled corporation	106,525,000 ^{(L) (Note 2)}	5.32

SUBSTANTIAL AND SIGNIFICANT SHAREHOLDERS

Notes:

1. The letter “L” denotes the Shareholder’s long position in the Shares.
2. Calypso, being one the Pre-Listing Investors holding approximately 5.32% of the issued share capital of our Company on the Listing Date, is a wholly owned subsidiary of HNA Group International Headquarter (Hong Kong) Co., Limited, which is in turn wholly owned by HNA Group Co., Ltd. (海航集團有限公司). HNA Group Co., Ltd. is held as to 30% by Yangpu Jianyun Investment Co., Ltd. (洋浦建運投資有限公司) and 70% by Hainan Traffic Administration Holding Co., Ltd. (海南交管控股有限公司). Hainan Traffic Administration Holding Co., Ltd. is in turn held as to 50% by Shengtang Development (Yangpu) Co., Ltd. (盛唐發展(洋浦)有限公司). Shengtang Development (Yangpu) Co., Ltd. is held as to 65% by the Labour Union of Hainan Airlines Co., Ltd. (海南航空股份有限公司工會委員會). As a result, HNA Group International Headquarter (Hong Kong) Co., Limited, HNA Group Co., Ltd., Yangpu Jianyun Investment Co., Ltd., Hainan Traffic Administration Holding Co., Ltd., Shengtang Development (Yangpu) Co., Ltd. and the Labour Union of Hainan Airlines Co., Ltd. are deemed under the SFO to be interested in these 106,525,000 Shares to be held by Calypso on the Listing Date.

Save as disclosed herein, our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Capitalisation Issue and the Placing (without taking into account any Shares which may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme and which would affect disclosure in this paragraph), will have an interest or a short position in the Shares or the underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group.

Each of our Substantial Shareholders, namely KVB Holdings and Mr. Li, has confirmed that it/he does not have any interest in a business apart from us which competes or is likely to compete with our Group.

OUR SIGNIFICANT SHAREHOLDERS

So far as our Directors are aware, save for the persons disclosed under the paragraph headed “Interests and/or short position discloseable under the SFO and our Substantial Shareholders” in this section, no persons, individually and/or collectively, will, immediately following completion of the Capitalisation Issue and the Placing (without taking into account any Shares which may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme and which would affect disclosure in this paragraph), be directly or indirectly interested in 5% or more of the voting power at the general meetings of our Company and are therefore regarded as our Significant Shareholders.

UNDERTAKINGS

Each of our Controlling Shareholders has given certain undertakings in respect of the Shares to our Company, the Sponsor, the Bookrunner and the other Placing Agents, details of which are set out under the paragraph headed “Undertakings” in the section headed “Structure of the Placing” in this prospectus. Each of our Controlling Shareholders has also given undertakings in respect of the Shares to our Company and the Stock Exchange as stipulated under Rules 13.16A(1) and 13.19 of the GEM Listing Rules.

SPONSOR'S INTERESTS

Save as disclosed in this prospectus, and for the advisory and documentation fees to be paid to Quam Capital as the Sponsor in connection with the Listing and as our compliance adviser with effect from the Listing Date and for the fees to be paid to Quam Securities Company Limited for its obligations under the Placing Agreement, neither Quam Capital, Quam Securities Company Limited nor any of their respective associates has or may, as a result of the Listing and/or the Placing, have any interest in any class of securities of our Company or any other members of our Group (including options or rights to subscribe for such securities).

No director or employee of Quam Capital who is involved in providing advice to our Company has or, as a result of the Listing and/or the Placing, may have any interest in any class of securities of our Company or any other members of our Group (including options or rights to subscribe for such securities). No director or employee of Quam Capital has any directorship in our Company or any other members of our Group.

The Sponsor satisfies the independence criteria applicable to sponsors as set forth in Rule 6A.07 of the GEM Listing Rules.

FINANCIAL INFORMATION

You should read the following discussion and analysis of our Group's financial condition and results of operations in conjunction with our Group's consolidated financial information included in the accountant's report, which has been prepared in accordance with the HKFRSs, as set out in Appendix I to this prospectus, and the unaudited pro forma financial information set out in Appendix II to this prospectus, in each case together with the accompanying notes. This discussion contains forward-looking statements which involve risks and uncertainties. Our Group's actual results and timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under the section headed "Risk Factors" and elsewhere in this prospectus.

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
Total	<u>155,242</u>	<u>100.0</u>	<u>123,222</u>	<u>100.0</u>

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 noted 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

FINANCIAL INFORMATION

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.

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.

FINANCIAL INFORMATION

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.

BASIS OF PRESENTATION

For the purpose of this prospectus, the financial information of our Group has been prepared using the principles of merger accounting. The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements of our Group for the Track Record Period have been prepared on a consolidated basis and include the financial information of the companies now comprising our Group as if the current group structure had been in existence throughout the Track Record Period. The consolidated balance sheets of our Group as at 31 December 2011 and 31 December 2012 have been prepared to present the assets and liabilities of our Group as at these dates as if the current group structure had been in existence as at these dates.

The net assets and results of our Group are consolidated using the existing book values from our Controlling Shareholders' perspective.

All significant intra-group transactions and balances have been eliminated on consolidated.

FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our financial condition and results of operations have been and will continue to be affected by a number of factors, including those discussed below.

Global demand for leveraged forex trading services and volatility in the forex market

We mainly provide leveraged forex and other trading services to our clients, while the provision of cash dealing and securities trading referral services also forms part of our business model. Our results of operations are therefore directly affected by the global demand for leveraged forex trading and the magnitude of changes in forex rate. The demand for leveraged forex trading services generally depends on, among other factors, the social and economic conditions of various places in the world, and in our case, mainly in New Zealand, Australia and Hong Kong. The demand for leveraged forex trading services also depends on the clients' preference on the choice of investment products. In addition, a highly volatile market condition will help our business in term of trading volume and vice versa. Therefore, the higher global demand for leveraged forex trading services and volatility in the forex market would contribute to the success of our Group.

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The ability of our Group to respond to changes in terms of market makers

Our operating results are affected by the terms of the agreements entered into between our Group and market makers. We generally act as the market maker to our clients' trades and as the agent for trades conducted by our clients. We are rewarded the spread between the price quoted to our clients and the price offered by market makers. Market makers may change the pricing and other terms of our leveraged trading and cash dealing. Any changes in terms may have a significant impact on the financial results of our business.

The ability of our Group to respond to changes in technology

Our online trading platform, ForexStar, provides our clients access to the margin 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 and our technology infrastructure allows us to enhance our services to meet the rapidly changing market needs. Our results of operations are therefore vulnerable to changes in technology. We believe that a key to our success is our ability to identify technological and market trends and maintain such technological advancement to satisfy our clients' needs.

The ability of our Group to respond to changes in regulatory regime

The financial services industry in which we operate is highly regulated. There is a recent trend of tightening regulatory requirements around the world to protect investors in the financial services industry. Any material changes in the regulatory requirements may result in additional cost of compliance and affect our results of operations. Our Group may require additional funding to support the requirements imposed by the respective regulators in respect of, among others, the enhanced minimum liquid capital requirements and other costs of compliance.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial information requires our management to make judgements, estimates and assumptions which affect revenue, expenses, carrying amounts of assets and liabilities, and disclosure of contingent liabilities which are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors which are considered to be relevant. Actual results may differ from those estimates. The following sets out certain accounting policies which our management considers to be critical in the portrayal of our financial condition and results of operations.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to our Group and when the revenue can be measured reliably on the following bases:

- (a) fees and commission income, when the services have been rendered;

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- (b) management fees income, when the services have been rendered; and
- (c) interest income, on an accrual basis using the effective interest method by applying the rate which discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

The leveraged forex and other trading income and the cash dealing income include the unrealised and realised profit or loss of the related transactions. The realised profit or loss is recognised when the related transactions are settled at each period and the unrealised profit or loss are recognised based on the market value of the related forex contracts at the period end.

Fees and commission income, management fees income and interest income are reported as “other income”.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment, if any. Historical cost includes expenditure which is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

Leasehold improvements	10 years or over the lease term, whichever is shorter
Computer equipment	3 to 5 years
Furniture, fixtures and equipment	3 to 5 years
Motor vehicles	3 to 5 years

Impairment of non-financial assets

Assets which have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets which are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill which suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

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Income tax

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where our subsidiaries operate and generate taxable income. Our management periodically evaluates position taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial information. Deferred income tax is determined using tax rates (and laws) which have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by our Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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SUMMARY OF RESULTS OF OUR GROUP

The following is a summary of our Group's results during the Track Record Period which has been extracted from the accountant's report set out in Appendix I to this prospectus.

	Year ended 31 December	
	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Leveraged forex and other trading income	107,526	86,951
Cash dealing income	12,602	9,310
Other income	<u>35,114</u>	<u>26,961</u>
Total income	<u>155,242</u>	<u>123,222</u>
Fees and commission expenses	34,631	48,804
Staff costs	38,769	29,532
Depreciation and amortisation	2,637	2,307
Minimum lease payments under land and buildings	6,521	5,777
Administrative and other operating expenses	<u>22,234</u>	<u>34,064</u>
Total expenses	<u>104,792</u>	<u>120,484</u>
Operating profit	50,450	2,738
Finance costs	<u>(145)</u>	<u>(306)</u>
Profit before tax	50,305	2,432
Income tax expense	<u>(14,750)</u>	<u>(4,181)</u>
Profit for the year	35,555	(1,749)
Other comprehensive income		
Currency translation difference	<u>(2,254)</u>	<u>4,586</u>
Other comprehensive income for the year, net of tax	<u>(2,254)</u>	<u>4,586</u>
Total comprehensive income for the year	<u><u>33,301</u></u>	<u><u>2,837</u></u>

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PRINCIPAL COMPONENTS OF STATEMENTS OF COMPREHENSIVE INCOME

Income

Our Group is principally engaged in leveraged forex and other trading and also cash dealing business.

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	<i>% of total income</i>	2012	<i>% of total income</i>
	<i>HK\$'000</i>		<i>HK\$'000</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
Total	<u>155,242</u>	<u>100.0</u>	<u>123,222</u>	<u>100.0</u>

A. *Leveraged forex and other trading income*

In leveraged forex trading, currencies are listed in pairs. The first currency noted in the pair is the base currency and the second one is the counter currency. An investor speculates that one currency will appreciate in relation to the counter currency in the pair. We facilitate 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).

Different clients are allowed to trade with a leverage ratio from 5 times to 200 times with margin deposits of not less than 0.5% to 20% of the contract value to us.

Our leveraged forex and other trading income is mainly generated by the following ways:

- (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.

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The level of income and our performance is principally affected by the market volatility and the trading volume of our clients. 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. Market volatility is driven by a range of external factors which are beyond our control, some of which are market specific (such as the European debt crisis in 2011) and some of which are correlated to general macroeconomic conditions.

Trading volume is driven by both external and internal factors. External factors include, but not limited to, the general economic conditions, financial strength of market participants, regulatory changes and political environment. Internal factors mainly come from the effectiveness of our sales and marketing strategies, the competitiveness of our technology, the pricing offered to our clients and the quality of our client services.

Meanwhile, we earn swap income by applying our markup to the interest rate credited and debited to our clients' overnight rollover currency pairs positions. 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 in the two years ended 31 December 2011 and 31 December 2012 was approximately HK\$12.9 million and HK\$15.7 million, respectively. The changes in swap income was principally attributable to the changes in overnight rollover positions of our clients. As a result, the level of swap income depends on the number of clients and their respective trading strategies.

All relevant income is recorded in accordance with the jurisdictions in which the client services agreements are executed. The reasons and commercial rationales for adopting such income recognition arrangement are as follows:

- (a) KVB NZ is the first member of our Group with its dealing room established in 2003;
- (b) our Group provides dealing room services on a 24-hour basis. In the opinion of our Directors, it is not cost-effective to maintain dealing rooms with similar functions in places with close time zone and therefore our Group's second dealing room is maintained in Hong Kong and no dealing room is maintained in Australia;
- (c) only KVB NZ and KVB HK execute contracts with market makers and are able to act as market makers for the leveraged forex and other trading business for our clients;
- (d) client services agreements have to be signed between KVB NZ and our clients introduced by KVB AU;
- (e) KVB AU only acts as an introducing broker to KVB NZ and does not actively participate in the management of currency positions of our Group; and
- (f) the respective income recognitions of our Group, KVB NZ and KVB AU are accounted for in accordance with the HKFRSs.

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Our Directors consider that such arrangement is consistent with the terms as stipulated in the introducing broker agreement between KVB NZ and KVB AU. Our Directors have confirmed that such arrangement is not implemented in order to bypass any applicable laws, rules or regulations in Australia given that (a) our Group has presented the business models of KVB NZ and KVB AU and the introducing broker arrangement between them to the ASIC at which the ASIC had not raised objections to; and (b) KVB NZ has obtained the relevant registration under the ASIC to carry out the required activities under the licence of KVB AU.

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. In addition, the target clients of our Group are overseas Chinese and Japanese in New Zealand and Australia and therefore minimal marketing and promotional resources are invested in Hong Kong, resulting in minimal number of clients in Hong Kong.

With reference to the segment reporting as set out in note 6 to the accountant's report in Appendix I to this prospectus, details of the business of each segment are set out below:

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. Therefore, no margin dealing income was recorded in Australia during the Track Record Period. The number of clients who reside in Australia but executed the client services agreements with KVB NZ was approximately 1,100 and 1,200 as at 31 December 2011 and 31 December 2012, respectively. 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.

Inter-segment sales of Hong Kong margin dealing segment represent the income allocated from the New Zealand margin dealing segment to the dealing room function in Hong Kong. Our two dealing rooms operate throughout 24 hours in three shifts. Our dealing room in New Zealand is responsible for one shift and the remaining two shifts are carried out by our dealing room in Hong Kong. As such, our income was allocated from New Zealand to Hong Kong to cover the contributions of our dealing room in Hong Kong. Inter-segment sales of investment sales segments represent the income allocated from the New Zealand margin dealing segment to the sales and marketing function through inception of clients by our investment sales teams in New Zealand and Australia. The pricing was determined with reference to the prevailing market price of transaction fees based on the number of lots traded in order to share the deemed profit to different functions in various jurisdictions in which our Group operates.

KVB AU acts as an introducing broker to refer prospective and suitable clients residing in Australia to KVB NZ, while KVB HK provides the dealing room functions to KVB NZ for trade execution. Such arrangements are in compliance with the applicable laws, rules and regulations in the respective jurisdictions.

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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 the two years ended 31 December 2011 and 31 December 2012. Our Directors consider that there was no underprovision of taxation expenses during the Track Record Period in relation to the above cross-border business activities.

The "unallocated" revenue is mainly (a) the leveraged forex trading profit or loss resulting from our proprietary trading activities to manage the risks exposed to fluctuation in foreign currency positions during the Track Record Period; and (b) cash dealing income in Hong Kong, which cannot be allocated to each reportable segments of our Group.

B. Cash dealing income

Besides our leveraged business, our Group also provides cash dealing services to KVB FX, KVB FX Pty and KVB CA, 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. 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. All amounts are settled through bank transfer or telegraphic transfer.

C. 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 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. Except for management services which may have been settled by cheques, all other amounts are settled through bank transfer

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or telegraphic transfer. There is no supplier for other income of our Group. The following table sets out the breakdown of our Group's other income during the Track Record Period:

	Year ended 31 December	
	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other income:		
Provision of management services	12,803	7,916
Fees and commission income	16,270	22,301
Interest income	1,902	1,571
Exchange gain/(loss), net	3,362	(5,343)
Others	777	516
	<u>35,114</u>	<u>26,961</u>
	<u>35,114</u>	<u>26,961</u>

a. Provision of management services

During the Track Record Period, our Group provided certain services including management, information technology, marketing and administrative services to and shared office premises with KVB Holdings and certain of its associates. Management services income is determined with reference to the cost of providing services plus markup.

b. Fees and commission income

Fees and commission income represents the commission income derived from leveraged forex and other trading, securities trading referral and research and consultancy fee income as follows:

	Year ended 31 December	
	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees and commission income:		
Commission income from leveraged forex and other trading	14,266	21,415
Securities trading referral income	573	544
Research and consultancy fee	1,128	255
Others	303	87
	<u>16,270</u>	<u>22,301</u>
	<u>16,270</u>	<u>22,301</u>

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As requested by certain referral parties, certain clients of our leveraged forex and other trading referred by referral parties were imposed commission charges on each trading lot. Such commission charges may vary with each referral party, the majority of which were paid as commission expenses to referral parties.

Securities trading referral income represents the commission rebate in respect of profit sharing arrangement on introduction of clients to executing brokers based on the size of the referred clients' trades. The referred clients may trade a variety of products including equities, indices, warrants, bonds and mutual funds with the executing brokers and all trades are referred to and executed with the executing brokers.

Research and consultancy fee represents consultancy income from the issue of brief research reports in relation to equity securities traded on the Tokyo Stock Exchange at the request of our clients. The issue of research reports in our own name may help us promote our business and branding and did not incur much additional cost.

c. Interest income

Interest income is mainly generated by the deposits made with banks and financial institutions.

d. Exchange gain/(loss), net

This mainly represents the unrealised gain/(loss) arising from the revaluation of monetary assets or liabilities denominated in foreign currency to the local reporting currency at month-end closing rate and the realised exchange gain/(loss) in settlement of daily operating expenses in foreign currency.

Fees and commission expenses

Fees and commission expenses represent the commission paid to referral parties and other incidental direct costs as follows:

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Fees and commission expenses:		
Commission to referral parties and the Japanese white label partner ^(Note)	33,477	47,474
Other fees paid	1,154	1,330
	<u>34,631</u>	<u>48,804</u>

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

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Our fees and commission expenses represented approximately 22.3% and 39.6% of our total income for the two years ended 31 December 2011 and 31 December 2012, respectively. The major component of our fees and commission expenses is the commission paid to referral parties which is an important sales and marketing channel to our Group.

Our sales and marketing strategies focus on three distribution channels, one of which is direct and the other two are indirect:

(a) *Direct marketing channel*

In executing our direct marketing strategy, we use a mix of online, television and email marketing, educational forex seminars and other public and media relations. This marketing channel is important to our Group for building long term brand and reputation. The direct sales and marketing function is carried out by our sales and marketing staff to which we incur staff costs and advertising/marketing expenses in our income statement.

(b) *Indirect marketing channel*

(i) *Referral parties*

This indirect marketing channel utilises a network of referral parties. Referral parties refer clients interested in leveraged trading to us in exchange for performance-based commission. Clients originating from referral parties open their accounts with our Group to which we provide client services, execution and other back office support services. This indirect channel is also important to our Group since it enables our Group to expand our client base in a relatively short period of time and react to the market changes swiftly. This strategy was proven to be successful in which we could capture the increase in market volatility during 2011.

Referral parties are reimbursed based on the trading volume of our clients referred by them and we have recorded such expenses as commission expenses in our income statement. As such, during periods in which the referred clients' trading activities are not so profitable to us due to low market volatility, if the associated trading volume remains high, we may be required to pay more commission to referral parties despite we are generating lower income from the referred clients. Such situation occurred during the year ended 31 December 2012.

(ii) *White label partners*

This channel allows other regulated financial institutions to use our trading platform under their own brand to offer retail forex trading services to their clients. Apart from the sales and marketing functions, client accounts would be opened directly with the white label partners who were responsible for the regulatory oversight. The white label partners would be remunerated in the form of commission rebates. This marketing channel was insignificant to our Group during the Track Record Period and our Group has ceased business relationships with all white label partners since September 2012.

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The brokerage fees and commission were incurred based on the trading volume of our clients referred by referral parties. The commission charged on the referred clients usually does not exceed US\$50 per lot, depending on the type of securities traded by the referred clients. As the commission income and the commission expenses are received from and paid to two different parties under two separate agreements, i.e. (a) commission income is received from the referred clients under the client services agreements between our Group and the referred clients; and (b) commission expenses are paid to referral parties under the commission sharing agreements between our Group and referral parties, we are required to gross up the income and expenses under the current accounting standards. Certain referral parties requested our Group to impose commission charges on the price quoted to our clients referred by them and our Group charges the referred clients commission through our trading platform.

The amount of commission income received from our clients and the amount which was ultimately paid to referral parties as part of their commission during the Track Record Period are as follows:

	For the year ended	
	31 December	
	2011	2012
	<i>HK\$' million</i>	<i>HK\$' million</i>
Commission income received from our clients	14.3	21.4
Commission paid to referral parties	13.9	21.1
Percentage of commission paid to referral parties out of the commission income received from our clients	97.2%	98.6%

The internal control procedures adopted by our Group to ensure the correctness of the commission income received from the referred clients and the commission expenses paid to referral parties includes:

for commission income:

- referral parties informing our Group of the commission rates agreed with the referred clients and our Group will record the same in the client account opening forms;
- settlement staff setting the commission rates in our trading system based on the information stated in the client account opening forms; and
- daily statements being sent to the referred clients showing the commission amounts charged,

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for commission expenses:

- commission sharing agreements being entered with referral parties to specify the commission rates;
- the referred clients being separately identifiable in our trading system;
- accounting staff downloading the relevant trading data of the referred clients from our trading system and calculating the commission expenses on monthly basis;
- assistants to dealing manager checking the commission expenses and our head of sales team signing off;
- settlement staff crediting the amount into referral parties' accounts maintained with our Group or making the payment directly to referral parties based on referral parties' payment instructions; and
- accounting staff making corresponding accounting entries into the accounting system.

The commission expenses paid to referral parties and the Japanese white label partner during the Track Record Period are as follows:

	For the year ended	
	31 December	
	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Commission expenses paid to referral parties	31,758	47,064
Commission expenses paid to the Japanese white label partner ^(Note)	1,719	410
Total	33,477	47,474

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

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Staff costs

Staff costs represent the salaries and allowances, pension costs and other benefits to the employees of our Group. The table below sets forth the staff costs by category during the Track Record Period:

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Salaries and allowances	37,884	28,595
Pension scheme contributions	<u>885</u>	<u>937</u>
	<u>38,769</u>	<u>29,532</u>

Our staff costs represented approximately 25.0% and 24.0% of our total income for the two years ended 31 December 2011 and 31 December 2012, respectively.

The directors' remuneration of our Group was approximately HK\$6.1 million and HK\$3.8 million for the two years ended 31 December 2011 and 31 December 2012, respectively. The decrease in directors' remuneration of our Group during the year ended 31 December 2012 was mainly due to the decrease in discretionary bonus paid to the directors of our Group from approximately HK\$2.2 million for the year ended 31 December 2011 to approximately HK\$0.9 million for the year ended 31 December 2012 given the less satisfactory performance of our Group for the year ended 31 December 2012.

Regarding the future remuneration policy of our Group, it is our objective to, in consultation with the remuneration committee of our Company, remunerate directors of our Group fairly but not excessively for their efforts, time and contributions made to our Group and the remuneration of directors of our Group would be determined with reference to various factors such as the duties and level of responsibilities of each director, the available information in respect of companies of comparable business or scale, the performance of each director, our Group's performance during the financial year concerned and the prevailing market conditions.

Depreciation and amortisation

Depreciation represents depreciation charges for property, plant and equipment including, among others, leasehold improvements, computer equipment, furniture, fixtures and equipment and motor vehicles and amortisation for intangible assets of our Group. For the two years ended 31 December 2011 and 31 December 2012, depreciation and amortisation represented approximately 1.7% and 1.9% of the total income of our Group, respectively.

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Minimum lease payments under land and buildings

Minimum lease payments under land and building represent the rental expenses paid for the offices of our Group. For the two years ended 31 December 2011 and 31 December 2012, minimum lease payments under land and building accounted for approximately 4.2% and 4.7% of the total income of our Group, respectively, as minimum lease payments remained stable regardless of a significant increase in the level of turnover of our Group.

Administrative and other operating expenses

Our administrative and other operating expenses mainly represent management fees paid to KVB Holdings, other office occupation expenses, information services expenses, marketing, advertising and promotion expenses, professional and consultancy fees and travelling expenses. The following table sets out our administrative and other operating expenses during the Track Record Period:

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Management fees paid to KVB Holdings	2,821	2,543
Management fees paid to fellow subsidiaries	306	82
Other office occupation expenses	1,364	1,541
Auditor's remuneration	1,697	2,865
Information services expenses	2,886	3,690
Professional and consultancy fees (net) ^(Note)	3,391	14,287
Repair and maintenance (including system maintenance)	442	623
Marketing, advertising and promotion expenses	1,857	2,511
Travelling expenses	2,556	2,033
Entertainment expenses	944	1,030
Others	3,970	2,859
	<u>22,234</u>	<u>34,064</u>

Note: Professional and consultancy fee mainly included accountancy fee, legal fee and sponsor fee which are related to the Listing application. It also included other professional and consultancy expenses related to general operations, such as licence fee, company registration fee and company secretarial fee.

A total of approximately HK\$13.7 million of the Listing expenses was recognised in the Track Record Period. Specifically, approximately HK\$1,885,000 and HK\$11,782,000 were recognised in the two years ended 31 December 2011 and 31 December 2012, respectively.

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For the two years ended 31 December 2011 and 31 December 2012, our Group's total administrative and other operating expenses were approximately 14.3% and 27.6%, respectively, of the total income of our Group.

For the two years ended 31 December 2011 and 31 December 2012, our Group paid management fees of approximately HK\$3.1 million and HK\$2.6 million, respectively, to KVB Holdings and its subsidiaries for the provision of financial system and website maintenance services, information technology services, reconciliation services, and market promotion and client services representing approximately 2.0% and 2.1%, respectively, of the total income of our Group.

Finance costs

Finance costs mainly represent bank and finance lease charges.

For the two years ended 31 December 2011 and 31 December 2012, our Group incurred finance costs of approximately HK\$0.1 million and HK\$0.3 million, respectively, represented approximately 0.1% and 0.2% of the total income of our Group.

Income tax expense

Our Group is carrying on business in New Zealand, Australia and Hong Kong. Income tax expense represents the amount of income tax paid or payable by us at the applicable tax rates in accordance with the relevant laws, rules and regulations in the respective jurisdictions. Income tax of New Zealand was 30% of the estimated assessable profit during the year ended 31 December 2011 and 28% of the estimated assessable profit during the year ended 31 December 2012. Income tax rate in Australia and Hong Kong was 30% and 16.5%, respectively, of the estimated assessable profit during the Track Record Period. During the Track Record Period, our Group applied the group tax relief which permitted the sharing of losses between entities within our Group and the Non-listed Group. Such application of group tax relief was approved by the relevant tax authorities. Starting from May 2012, our Group has strictly applied the group tax relief to the entities within our Group and any tax losses arising from entities within our Group will not be elected to offset against the taxable profit arising from the entities within the Non-listed Group.

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Reimbursed Listing Expenses

The table below sets out the total income, profit for the year and cash flows from operating activities before working capital changes of our Group adjusted for the net effect of the exclusion of the Listing expenses recognised in our consolidated statements of comprehensive income and the related party transactions as laid down in note 27 to the accountant's report in Appendix I to this prospectus and the inclusion of the Reimbursed Listing Expenses during the Track Record Period. The following table has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the total income, profit for the year and cash flows from operating activities before working capital changes of our Group during the Track Record Period or at any dates after the Listing.

		Year ended 31 December	
		2011	2012
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total income		155,242	123,222
Less: Income generated by the related party transactions	<i>1</i>	<u>(13,473)</u>	<u>(7,955)</u>
Adjusted total income		<u><u>141,769</u></u>	<u><u>115,267</u></u>
Profit/(Loss) for the year		35,555	(1,749)
Add: Listing expenses recognised in the income statement		1,885	11,782
Less: Net income effect on related party transactions	<i>2</i>	(1,707)	(661)
Less: Net loss effect on the Reimbursed Listing Expenses	<i>3</i>	<u>(12,669)</u>	<u>–</u>
Adjusted profit for the year		<u><u>23,064</u></u>	<u><u>9,372</u></u>
Cash flows from operating activities before working capital changes		50,937	3,168
Add: Listing expenses recognised in the income statement		1,885	11,782
Less: Net income effect on related party transactions	<i>2</i>	(1,707)	(661)
Less: Net loss effect on the Reimbursed Listing Expenses	<i>3</i>	<u>(12,669)</u>	<u>–</u>
Adjusted cash flows from operating activities before working capital changes		<u><u>38,446</u></u>	<u><u>14,289</u></u>

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Notes:

- 1. The income generated by the related party transactions includes management fee income for the provision of group management, information technology, marketing and administration support, interest income, commission income and handling fee income.*
- 2. The net income/(loss) effect on the related party transactions includes the income generated by the related party transactions, the corresponding expenses and management fee expenses for the provision of information technology support, financial system and website maintenance services, and marketing promotion and client services. The resultant taxation effect is ignored.*
- 3. Due to the passing away of Ms. Tsui, being a key shareholder of KVB Holdings, in October 2011, the Listing process was delayed and was resumed in June 2012. In view of the fact that some of the costs incurred in connection with the Listing prior to the resumption of the Listing process could no longer be utilised and that some of the preparation work in connection with the Listing prior to the resumption of the Listing process could not bring any economic benefit to our Company, a deed was executed between our Company and KVB Holdings on 7 September 2012 under which KVB Holdings has agreed to unconditionally and irrevocably take up or reimburse our Group for the Reimbursed Listing Expenses in relation to the aforesaid preparation work. Our Group intended to request for the Reimbursed Listing Expenses in 2011 after the passing away of Ms. Tsui. However, due to several reasons, including but not limited to, the time spent on negotiating with KVB Holdings and consulting with our legal advisers and other professional parties involved in the Listing, and the time required for the grant of the Letters of Administration, the deed in relation to the Reimbursed Listing Expenses was signed subsequently on 7 September 2012. The services agreements relating to the Reimbursed Listing Expenses were signed between our Group and the professional parties involved in the Listing and invoices were issued to our Group.*

*In accordance with paragraph 37 of HKAS 32 “Financial Instruments: Presentation”, aborted expenses relating to an abandoned equity issue are required to be recognised as an expense in our Group’s income statement. According to paragraphs 32 to 35 of HKAS 1 (Revised) “Presentation of Financial Statements” (“**HKAS 1**”), an entity shall not offset assets and liabilities or income and expenses, unless required or permitted by the HKFRSs; and an entity presents the results of such transactions, when this presentation reflects the substance of the transaction or other event, by netting any income with related expenses arising from the same transaction. In respect of the reimbursement of the aborted expenses by KVB Holdings, given such expenses were caused by the passing away of Ms. Tsui and were incurred solely for the benefit of KVB Holdings but not our Company, taking into account paragraphs 106 and 109 of HKAS 1 and paragraph 4.25 of the Conceptual Framework for Financial Reporting 2010 (the “**Conceptual Framework**”) issued by the HKICPA, the reimbursement is not considered as a contribution from the equity Shareholders and has been presented net against the aborted expenses to reflect the substance of the transactions. In addition, in accordance with the Conceptual Framework, for financial information to be useful, it must not only represent the relevant phenomena, but it must also faithfully represent the phenomena which it purports to represent. Applying this to our Company, the aborted expenses and reimbursement are presented together to reflect the substance of the transactions.*

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 the two years ended 31 December 2011 and 31 December 2012.

The Reimbursed Listing Expenses are capital in nature and not deductible for profits tax. Our Company has not received any profits tax return since our incorporation and therefore we have not filed any tax return and computation with the Inland Revenue Department of Hong Kong. The reimbursement by KVB Holdings has been presented net against the corresponding expenses in accordance with HKAS 1 to reflect the substance of the transactions.

Given the Reimbursed Listing Expenses, our Group’s profit for the two years ended 31 December 2011 and 31 December 2012 would be effectively increased by approximately HK\$12,669,000 and nil, respectively.

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MANAGEMENT DISCUSSION AND ANALYSIS OF OUR GROUP'S RESULTS OF OPERATIONS

The following sets forth the management's discussion and analysis of our Group's results of operations during the Track Record Period. The following discussion should be read in conjunction with the consolidated financial information of our Group during the Track Record Period in the accountant's report, the text of which is set out in Appendix I to this prospectus.

Year ended 31 December 2011 compared with year ended 31 December 2012

Total income

Our total income decreased by approximately 20.6% to approximately HK\$123.2 million for the year ended 31 December 2012 from approximately HK\$155.2 million for the year ended 31 December 2011.

A. Leveraged forex and other trading income

Our leveraged forex and other trading income decreased by approximately 19.1% from approximately HK\$107.5 million for the year ended 31 December 2011 to approximately HK\$87.0 million for the year ended 31 December 2012. The transacted volume increased by approximately 17.4% to approximately US\$77.0 billion for the year ended 31 December 2012 mainly due to the increase in the number of clients from approximately 7,900 as at 31 December 2011 to approximately 11,900 as at 31 December 2012. Notwithstanding the above, the market became stagnant and kept on trading within a narrow range. Given the lower market volatility during the year ended 31 December 2012 as compared to that during the year ended 31 December 2011, our leveraged forex and other trading income decreased despite the increase in trading volume and the segment profit of our margin dealing in New Zealand decreased from approximately HK\$51.2 million for the year ended 31 December 2011 to approximately HK\$15.1 million for the year ended 31 December 2012.

B. Cash dealing income

Our cash dealing income decreased by approximately 26.1% from approximately HK\$12.6 million for the year ended 31 December 2011 to approximately HK\$9.3 million for the year ended 31 December 2012. The decrease was mainly attributable to the slowdown of the money changing business of the Non-listed Group as a result of the competitive pricing in 2012.

C. Other income

Our other income decreased by approximately 23.2% to approximately HK\$27.0 million for the year ended 31 December 2012 from approximately HK\$35.1 million for the year ended 31 December 2011.

Our fees and commission income increased from approximately HK\$16.3 million for the year ended 31 December 2011 to approximately HK\$22.3 million for the year ended 31 December 2012 due to a significant increase in the number of referred clients from approximately 4,400 as at 31 December 2011 to approximately 8,800 as at 31 December 2012. The major component of fees and

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commission is the commission charged to the referred clients from leveraged forex and other trading business based on their trading volume. The increase was mainly due to the increase in the number of referred clients and their respective trading volume.

During the year ended 31 December 2012, our Group recorded an exchange loss of approximately HK\$5.3 million while there was an exchange gain of approximately HK\$3.4 million during the year ended 31 December 2011. This was mainly due to the month-end translation of monetary assets denominated in foreign currency into local reporting currency by KVB NZ with the appreciation of NZD/USD exchange rate from approximately 0.7733 to 0.8222 during the year ended 31 December 2012.

Fees and commission expenses

Our fees and commission expenses increased by approximately 41.0% to approximately HK\$48.8 million for the year ended 31 December 2012 from approximately HK\$34.6 million for the year ended 31 December 2011. The fees and commission increased significantly mainly due to the increase in trading volume of our clients referred by referral parties.

Our Group had approximately 620 referral parties as at 31 December 2012, whereas approximately 500 referral parties had been newly added during the year ended 31 December 2012. The number of active clients referred by referral parties was approximately 2,100 and 3,400 for the two years ended 31 December 2011 and 31 December 2012, respectively.

Staff costs

Our staff costs decreased by approximately 23.8% to approximately HK\$29.5 million for the year ended 31 December 2012 from approximately HK\$38.8 million for the year ended 31 December 2011 as a result of the decrease in payment of discretionary staff incentives of approximately HK\$9.4 million for the year ended 31 December 2012 as compared with the year ended 31 December 2011 having regard to the performance of our Group and the then market condition.

Depreciation and amortisation

Depreciation and amortisation decreased by approximately 11.5% to approximately HK\$2.3 million for the year ended 31 December 2012 from approximately HK\$2.6 million for the year ended 31 December 2011 as some of the computer equipment and furniture, fixtures and equipment were fully depreciated during the year ended 31 December 2011.

Minimum lease payments under land and buildings

Minimum lease payments under land and building decreased by approximately 10.8% to approximately HK\$5.8 million for the year ended 31 December 2012 from approximately HK\$6.5 million for the year ended 31 December 2011 as the lease of our New Zealand office was renewed in June 2011 with a reduction in rent.

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Administrative and other operating expenses

Our administrative and other operating expenses increased by approximately 53.6% to approximately HK\$34.1 million for the year ended 31 December 2012 from approximately HK\$22.2 million for the year ended 31 December 2011.

This increase was primarily due to the increase in the Listing expenses of approximately HK\$9.9 million during the year ended 31 December 2012 as compared with the year ended 31 December 2011 as a result of the resumption of the Listing process in June 2012.

Finance costs

Our finance costs remained insignificant during the two years ended 31 December 2011 and 31 December 2012.

Income tax expense

Our income tax expense decreased by approximately HK\$10.6 million to approximately HK\$4.2 million for the year ended 31 December 2012 from approximately HK\$14.8 million for the year ended 31 December 2011 due to the decrease in our profit. Our effective tax rates for the two years ended 31 December 2011 and 31 December 2012 were approximately 29.3% and 171.9%, respectively. The significant increase in effective tax rate for the year ended 31 December 2012 was mainly due to the fact that the Listing expenses were non-deductible from the taxable profit.

Net profit and net profit margin

For the reasons set forth above, our Group incurred a loss of approximately HK\$1.7 million for the year ended 31 December 2012. Our net profit margin of approximately 22.9% for the year ended 31 December 2011 was changed to our net loss margin of approximately 1.4% for the year ended 31 December 2012. As a summary, such change in the profitability of our Group was primarily contributed by:

- (a) lower market volatility resulted in lower leverage forex and other trading income;
- (b) increase in commission expenses paid to referral parties as a result of increase in trading volume of the referred clients; and
- (c) increase in the Listing expense following the resumption of the Listing process in June 2012.

IMPACT OF LISTING EXPENSES

The financial results of our Group for the year ended 31 December 2012 were affected by the non-recurring Listing expenses. The Listing expenses up to 31 December 2012 were approximately HK\$19.1 million, of which approximately HK\$5.0 million are directly attributable to the issue of the Placing Shares and are expected to be accounted for as a deduction from equity. The estimated

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Listing expenses for the year ending 31 December 2013 are approximately HK\$10.8 million, of which approximately HK\$3.7 million are directly attributable to the issue of the Placing Shares and are expected to be accounted for as a deduction from equity. The amount of Listing expenses is a current estimate for reference only and the final amount to be recognised to the consolidated statements of comprehensive income of our Group for the year ending 31 December 2013 is subject to adjustment based on the audit and the then changes in variables and assumptions. Prospective investors should note that the financial performance of our Group for the year ending 31 December 2013 would be materially and adversely affected by the estimated Listing expenses mentioned above, and may or may not be comparable to the financial performance of our Group in the past.

LIQUIDITY AND FINANCIAL RESOURCES

Our principal operating subsidiaries are all licensed entities and are required to comply with local regulatory capital rules. Under these rules, sufficient liquidity and financial resources are required to be maintained to fulfil not only the daily operational needs but also to cover the possible risks to which our licensed subsidiaries expose.

During the two years ended 31 December 2011 and 31 December 2012, the net cash inflow generated by our Group from operating activities before working capital changes decreased by approximately HK\$47.8 million to approximately HK\$3.2 million for the year ended 31 December 2012. Our Group's cash and cash equivalents amounted to approximately HK\$178.1 million and HK\$248.7 million as at 31 December 2011 and 31 December 2012, respectively.

CASH FLOWS

The primary uses of cash are to satisfy the working capital needs and the capital expenditure requirements. Since our establishment, the working capital needs and capital expenditure requirements of our Group have been financed through a combination of shareholders' equity and cash generated by operations.

The following table is a condensed summary of the consolidated statements of cash flow of our Group for the two years ended 31 December 2011 and 31 December 2012:

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Net cash flows from operating activities	45,800	30,987
Net cash flows from/(used in) investing activities	299	(1,100)
Net cash flows from/(used in) financing activities	<u>(41,583)</u>	<u>35,973</u>
Net increase in cash and cash equivalent	4,516	65,860
Cash and cash equivalents at beginning of year	176,153	178,052
Effect of forex rate changes, net	<u>(2,617)</u>	<u>4,738</u>
Cash and cash equivalents at end of year	<u>178,052</u>	<u>248,650</u>

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Cash flows from/(used in) operating activities

We derive cash inflow from operating activities principally from the receipts for the spread income when our clients trade. Our cash outflow from operations is principally payments of fees and commission expenses to referral parties, staff costs, minimum lease payments, and administrative and other operating expenses.

For the year ended 31 December 2011, we recorded net cash flows from operating activities of approximately HK\$45.8 million, which was primarily attributable to our profit before tax of approximately HK\$50.3 million and adjusted for net working capital inflow of approximately HK\$7.2 million, our interest income of approximately HK\$1.9 million, our depreciation and amortisation of approximately HK\$2.6 million, our gain on disposal of fixed assets of approximately HK\$0.1 million and our income tax paid of approximately HK\$12.3 million. During the year ended 31 December 2011, the net working capital inflow was mainly attributable to a net decrease in amounts due from related companies of approximately HK\$13.0 million arising from the termination of the subordinated loan in August 2011 and the repayment of the amounts due to fellow subsidiaries and a decrease in other receivables of approximately HK\$3.4 million which was partially offset by an increase in client trust bank balances of approximately HK\$6.2 million, an increase in balances due from agents of approximately HK\$2.7 million, an increase in derivative financial instruments of approximately HK\$1.0 million and a decrease in clients' balances of approximately HK\$1.4 million.

For the year ended 31 December 2012, we recorded net cash flows from operating activities of approximately HK\$31.0 million, which was primarily attributable to our profit before tax of approximately HK\$2.4 million and adjusted for net working capital inflow of approximately HK\$38.0 million, interest income of approximately HK\$1.6 million, depreciation and amortisation of approximately HK\$2.3 million and income tax paid of approximately HK\$10.2 million. For the year ended 31 December 2012, the net working capital inflow was mainly attributable to a decrease in the amounts due from ultimate holding company of approximately HK\$18.4 million as a result of the settlement of reimbursement of the Listing expenses incurred prior to and including the year ended 31 December 2011, a decrease in pledged time deposits of approximately HK\$6.3 million, a decrease in client trust bank balances of approximately HK\$19.2 million and a net decrease in derivative financial assets of approximately HK\$12.7 million, which was partially offset by a decrease in clients' balances of approximately HK\$15.5 million, an increase in balances due from agents of approximately HK\$3.4 million and an increase in other assets and prepayment of approximately HK\$2.3 million.

The net operating cash inflow of our Group reduced by approximately HK\$14.8 million to approximately HK\$31.0 million for the year ended 31 December 2012 mainly due to the decrease in profit before tax by approximately HK\$47.9 million to approximately HK\$2.4 million for the year ended 31 December 2012 which was partially offset by the cash inflow arising from a net decrease in the amounts due from ultimate holding company and the derivative financial assets mentioned above.

Cash flows from/(used in) investing activities

We derive cash inflow from our investing activities principally from the interest received. Our cash outflow in investing activities is principally for the purchase of property, plant and equipment and intangible assets, as well as the movement in subordinated loan to a fellow subsidiary.

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For the year ended 31 December 2011, we recorded net cash flows from our investing activities of approximately HK\$0.3 million, which was primarily attributable to the purchase of property, plant and equipment and intangible assets of approximately HK\$4.8 million offset by the interest received of approximately HK\$1.9 million and the proceeds of the disposal of plant and equipment of approximately HK\$0.1 million and repayment of a subordinated loan to a fellow subsidiary of HK\$3.0 million.

For the year ended 31 December 2012, we recorded net cash flows used in our investing activities of approximately HK\$1.1 million, which was primarily attributable to the purchase of property, plant and equipment and intangible assets.

The net investing cash flows of our Group changed to an outflow of approximately HK\$1.1 million for the year ended 31 December 2012 mainly due to the absence of subordinated loan repayment for the year ended 31 December 2012.

Cash flows from/(used in) financing activities

For the year ended 31 December 2011, we recorded net cash used in our financing activities of approximately HK\$41.6 million, which was primarily attributable to the dividend paid of approximately HK\$41.5 million.

For the year ended 31 December 2012, we recorded net cash inflow from our financing activities of approximately HK\$36.0 million, which was primarily attributable to the proceeds of the issue of Shares to the Pre-Listing Investors of HK\$57.0 million which was partially offset by the dividend paid of approximately HK\$21.0 million.

As a whole, we derive cash inflow from/(used in) our financing activities principally from the proceeds of the issue of Shares and the dividend paid.

Financial resources

Prior to completion of the Placing, our Group's operations have been financed principally by equity capital and cash generated by our business operations. Our Directors believe that we will continue to fund our current working capital and fulfil the capital expenditure requirement through cash flows from our business operations, the net proceeds of the Placing and the cash and bank deposits. Our Directors believe that on a long term basis, our Group's liquidity will be funded by our business operations and, if necessary, additional equity financing or bank borrowing.

Foreign currency risk

During the year ended 31 December 2012, our Group recorded an exchange loss of approximately HK\$5.3 million while there was an exchange gain of approximately HK\$3.4 million during the year ended 31 December 2011. This was mainly due to the month-end translation of monetary assets denominated in foreign currency into local reporting currency by KVB NZ with the appreciation of NZD/USD exchange rate from approximately 0.7733 to 0.8222 during the year ended 31 December 2012.

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Based on the net asset/liability values in different currencies as at 31 December 2011 and 31 December 2012, the impact on our Group's forex gain/loss in response to the movement in forex rate is summarised below:

Foreign currency risk	Movement in foreign currency	31 December 2011	2012
AUD	appreciated by/ depreciated by 5%	increased by/ decreased by approximately HK\$571,000	increased by/ decreased by approximately HK\$978,000
JPY	appreciated by/ depreciated by 5%	increased by/ decreased by approximately HK\$29,000	increased by/ decreased by approximately HK\$116,000
NZD	appreciated by/ depreciated by 5%	decreased by/ increased by approximately HK\$384,000	increased by/ decreased by approximately HK\$841,000
USD	appreciated by/ depreciated by 1%	increased by/ decreased by approximately HK\$1,625,000	increased by/ decreased by approximately HK\$723,000

The foreign currency risk is managed proactively by regular review of the currency positions in a basket of currency mix. In view of the currency positions (other than those incurred in the ordinary course of business on a daily basis), our Group entered into leveraged forex and derivative financial investments to manage the risks exposed to fluctuation in foreign currency positions during the Track Record Period. 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. 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.

CAPITAL STRUCTURE

The capital structure of our Group consists of cash and cash equivalents and equity attributable to owners of our Company, comprising issued share capital and reserves.

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CAPITAL EXPENDITURE

Our Group's capital expenditure for the two years ended 31 December 2011 and 31 December 2012 remained insignificant and principally consisted of expenditure on furniture, fixtures and equipment, computer equipment, leasehold improvements and motor vehicles in the aggregate amount of approximately HK\$4.9 million and HK\$2.5 million, respectively. We have funded our historical capital expenditures through cash flows from our business operations and cash and bank deposits.

NET CURRENT ASSETS

The following table sets out details of our Group's current assets and current liabilities as at the dates indicated:

	As at 31 December		As at
	2011	2012	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(unaudited)
Current assets			
Tax prepayments	–	1,742	–
Other assets and prepayments	6,415	8,662	11,511
Amounts due from ultimate holding company	14,668	–	–
Amounts due from fellow subsidiaries	3,447	201	647
Derivative financial instruments	46,259	36,571	33,389
Balances due from agents	10,626	14,037	19,343
Cash and bank balances	218,322	268,441	287,154
Client trust bank balances	90,929	71,691	95,394
	<u>390,666</u>	<u>401,345</u>	<u>447,438</u>
Total current assets			
Current liabilities			
Finance lease obligations	128	151	117
Current income tax liabilities	4,629	328	3,865
Other payables and accrued liabilities	22,402	15,247	14,086
Amounts due to fellow subsidiaries	1,129	698	1,147
Amounts due to ultimate holding company	–	3,683	1,114
Derivative financial instruments	4,181	7,178	14,244
Clients' balances	163,095	147,590	169,940
Balances due to banks	14,172	–	–
	<u>209,736</u>	<u>174,875</u>	<u>204,513</u>
Total current liabilities			
Net current assets	<u>180,930</u>	<u>226,470</u>	<u>242,925</u>

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As at 30 April 2013, our Group had unaudited net current assets of approximately HK\$242.9 million which represented an increase of approximately HK\$16.4 million compared with that as at 31 December 2012. The increase was mainly due to the increase in clients' balances of approximately HK\$22.4 million, the increase in client trust bank balances of approximately HK\$23.7 million and the increase in bank balances of approximately HK\$18.7 million. The increase in clients' balances and client trust bank balances were in line with the fact that the outstanding open margin forex positions of our clients increased as at 30 April 2013. The size of the outstanding positions of our clients was driven by their commercial decisions as at the corresponding period end date. The increase in bank balances was mainly due to the cash inflow from operating activities before working capital changes of approximately HK\$18.5 million for the four months ended 30 April 2013.

As at 31 December 2012, our Group had net current assets of approximately HK\$226.5 million. The components of our Group's current assets as at such date included cash and bank balances and client trust bank balances of approximately HK\$340.1 million, derivative financial instruments of approximately HK\$36.6 million, amounts due from our fellow subsidiaries of approximately HK\$0.2 million and other current assets of approximately HK\$24.4 million. The components of our Group's current liabilities included clients' balances of approximately HK\$147.6 million, derivative financial liabilities of approximately HK\$7.2 million, amounts due to ultimate holding company and fellow subsidiaries of approximately HK\$4.4 million and other current liabilities of approximately HK\$15.7 million.

Other assets and prepayments

Our other assets and prepayments mainly consist of rental and utility receivables and prepayments. The following table sets out details of our other assets and prepayments as at the dates indicated:

	As at 31 December	
	2011	2012
	HK\$'000	HK\$'000
Rental, utility and other receivables	3,426	3,052
Prepayments	2,886	5,566
Others	103	44
	<u>6,415</u>	<u>8,662</u>

Prepayment mainly included (a) the capitalisation of the Listing expenses in relation to the professional services provided to our Group during the Track Record Period which will be offset against the proceeds of the Placing; and (b) prepayment for renovation and other general expenses. As at 31 December 2011 and 31 December 2012, the prepaid Listing expenses amounted to approximately HK\$2.4 million and HK\$5.0 million, respectively. The prepaid Listing expenses we paid for the services rendered by the professional parties involved in the Listing during the Track Record Period were considered to be related to the issue of new Shares and would be offset against the proceeds of the Placing upon the Listing. Therefore, the prepaid Listing expenses were recognised in the prepayment account.

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As at 31 December 2012, our other assets and prepayments increased by approximately HK\$2.3 million to approximately HK\$8.7 million mainly due to the capitalisation of the Listing expenses.

Amounts due from/to ultimate holding company and fellow subsidiaries

As at 31 December 2011, there were net amounts due from ultimate holding company and fellow subsidiaries of approximately HK\$17.0 million. Due to the reimbursement of the Listing expenses by our ultimate holding company in cash in 2012, there were net amounts due to ultimate holding company and fellow subsidiaries of approximately HK\$4.2 million. As at 30 April 2013, save for the amounts due to ultimate holding company of approximately HK\$1.1 million, the outstanding amounts due from/to ultimate holding company and fellow subsidiaries were related to the Shared Services (as defined in the paragraph headed “Non-exempt continuing connected transactions” in the section headed “Connected Transactions” in this prospectus). The amounts due to ultimate holding company, being the non-trade balances, of approximately HK\$1.1 million will be fully settled prior to the Listing.

Derivative financial instruments and financial assets at fair value through profit or loss

The following table sets out the breakdown of derivative financial instruments and financial assets at fair value through profit or loss of our Group as at the dates indicated:

	As at 31 December	
	2011	2012
	HK\$'000	HK\$'000
Current assets		
Derivative forex contracts	46,259	36,571
Current liabilities		
Derivative forex contracts	(4,181)	(7,178)
	<u>42,078</u>	<u>29,393</u>

Our Group has traded in foreign currencies through our foreign currency margin trading business. In order to protect against exchange rate movements, our Group has entered into a number of forex and forward transactions with banks to manage our net foreign currency exposure. The notional principal amounts of the outstanding forward forex contracts as at 31 December 2011 and 31 December 2012 were approximately HK\$2,161 million and HK\$1,892 million, respectively. The derivative financial assets and liabilities are the mark-to-market value of the forex contracts in various currency pairs as at the balance sheet date. All these forex contracts are entered into in our ordinary course of business. The assets side represents the unrealised profit while the liabilities side represents the unrealised loss. The fluctuation of these two components mainly depends on two factors, the first is the size of our outstanding positions of forex contracts and the second is the market prices of the forex contracts. As at 31 December 2012, there was a net decrease in the net derivative financial assets of approximately HK\$12.7 million when compared to that as at 31 December 2011. Such fluctuation was mainly due to the decrease in outstanding positions as at 31 December 2012.

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A forex contract involves exchange of currency pairs with counterparties which can net-off each other at the time of entering into the forex contract. For example, if our Group buys 5 EUR against USD contracts at 1.2352 from a client, the client has the obligation to receive US\$617,600 from our Group and the client has the obligation to give EUR500,000 to our Group on the value date. Such rates which each party is willing to exchange the currencies are regarded as the market rates at the point of contract inception. As such, from the perspectives of our Group and the client, no expected future economic benefits are expected to flow into our Group or the clients at the time of entering into the forex contract. Therefore, the market value of such forex contract at the time of inception is considered to be zero. When the exchange rate fluctuates such that the currency rate changes to 1.2354, EUR500,000 now requires US\$617,700 to settle. Therefore, our Group will incur a loss of US\$100 which is recorded as derivative liabilities after such change in the exchange rate.

The derivative forex contracts do not meet the criteria for offsetting pursuant to paragraph 42 of HKAS 32 “Financial Instruments: Presentation” which states that:

“A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when, and only when, an entity:

- (a) currently has a legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.”

Since the derivative forex contracts with our clients and the banks were entered into separately by our Group without any legally enforceable right to set off against each other, they do not meet the above criteria for offsetting in accordance with HKAS 32. Accordingly, the derivative forex contracts were accounted for as current asset and current liabilities on gross basis.

Balances due from agents

Balances due from agents arise when (a) the executing brokers pay commission rebates to our Group; (b) our Group places margin deposits with the executing brokers when we enter into commodity hedging positions with the executing brokers; and (c) our Group places funds with executing brokers to facilitate the trading of our clients with the executing brokers.

We refer our clients interested in trading securities to executing brokers. In return, the executing brokers rebate a portion of their commission earned from our clients to our Group. Such commission rebates from the executing brokers are classified as the securities trading referral commission in our profit and loss account. When the executing brokers pay the commission rebates to us, they can either deposit cash into our bank account or credit such amount into the accounts we maintain with them. We are free to withdraw our funds from the accounts maintained with them at any time. The accounting entries of recognising the securities trading referral commission are as follows:

Debit	Balances due from agents (or cash and bank balances)
Credit	Securities trading referral commission

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The fluctuation of balances due from agents was mainly due to the fluctuation of hedge transactions of our Group in response to the commodity trading activities initiated by our clients. Our clients' activities fluctuate due to their respective commercial needs as at the period end.

Balances due from agents increased from approximately HK\$10.6 million as at 31 December 2011 to approximately HK\$14.0 million as at 31 December 2012.

Client trust bank balances

Our Group maintains segregated bank accounts with authorised banks and financial institutions to separate our clients' monies from our own funds. Our clients' activities fluctuate due to their respective commercial needs as at the period end. Client trust bank balances decreased from approximately HK\$90.9 million as at 31 December 2011 to approximately HK\$71.7 million as at 31 December 2012.

Clients' balances

Clients' balances mainly represent the margin deposits from our clients and the realised profit or loss arising from their trading positions. Clients' balances may not equal to client trust bank balances under the Futures Industry (Client Funds) Regulations 1990 of New Zealand, where clients' balances with the authorisation from the client account holder can be deposited into non-client designated accounts by signing an "acknowledgement by client in respect of overseas persons" (the "**Acknowledgement**") and such amount is included in the cash and bank balances of our Group. Client trust bank balances fluctuate as clients' activities fluctuate at different period end. Our clients' activities fluctuate due to their respective commercial needs as at the period end. As at 31 December 2011 and 31 December 2012, the clients' balances amounted to approximately HK\$163.1 million and HK\$147.6 million, respectively. As at 31 December 2011 and 31 December 2012, the clients' balances included in the cash and bank balances of our Group amounted to approximately HK\$72.2 million and HK\$75.9 million, respectively.

Our clients are free to choose whether to sign the Acknowledgement. For clients' balances included in the cash and bank balances of our Group, the clients concerned have already authorised us by signing the Acknowledgement. Our Group could freely use those non-segregated clients' balances under the relevant laws, rules and regulations. Compliance with these laws, rules and regulations will be subject to review by external auditors on a half-yearly basis and compliance reports are required to be submitted to the FMA.

Other payables and accrued liabilities

Our other payables and accrued liabilities mainly represent the accrued rental benefit, employee entitlements, temporary deposits from our clients, reinstatement cost and margin withheld for trading.

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The following table sets out details of our other payables and accrued liabilities as at the dates indicated:

	As at 31 December	
	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Accrued rental benefit	1,356	1,002
Accruals	2,144	5,612
Commission payable	5,252	3,139
Employee entitlements	6,211	512
Temporary deposits from clients	–	413
Reinstatement cost	42	–
Dividend payable	7,000	–
Other payables	397	4,569
	<u>22,402</u>	<u>15,247</u>

Temporary deposits from clients are unknown deposits received from our clients the identities of which are yet to be ascertained. Sometimes, our clients deposit funds into the client's margin segregated account prior to notifying our staff. Nevertheless, our Group performs daily bank reconciliation to ensure that all funds in and out of the client's margin segregated account are properly recorded. Any discrepancies are investigated in accordance with our strict anti-money laundering and counter-terrorist financing policies. As such, pending completion of the investigation, any such unknown deposits will be treated as temporary deposits from clients. Temporary deposits only arise in Hong Kong due to the time difference between New Zealand and Hong Kong. Our clients' funds deposited into the client's margin segregated account of KVB HK are related to the operations of KVB NZ. In some cases, unknown funds were deposited by our clients outside the office hours of KVB NZ but during the office hours of KVB HK and the identities of our clients who deposited such unknown deposits were identified after KVB HK communicating with KVB NZ on the next business day, which means that in general, temporary deposits from clients exist on the books and records of our Group for one business day. Once the client who made such deposit is identified, the temporary deposit will be reclassified as client's balance as appropriate. Such accounting entry was only necessary when it came to preparing our accounts at a particular date and when there were such unknown deposits in the client's margin segregated accounts pending completion of the investigation. As such, our Directors do not consider the existence of temporary deposits from clients indicates any weakness in our monitoring of the cash flows from our clients. As at 31 December 2011, we did not record any such unknown deposit in the client's margin segregated account and therefore the amount was nil as at that date. Our Directors have confirmed that our Group has carried out procedures for verifying the identities of our clients when entering into new client relationships or when conducting occasional transactions involving transfer of large sum of cash. On this basis, as advised by the legal advisers to our Company as to Hong Kong law, the receipt of temporary deposits as described above complies with the relevant laws, rules and regulations in Hong Kong. Given that our Group performs daily bank reconciliation to ensure the proper recording of all funds in and out of the client's margin segregated account and

FINANCIAL INFORMATION

having considered the view of the legal advisers to our Company as to New Zealand law, Australian law and Hong Kong law that our Group complied with all the relevant laws, rules and regulations in conducting our business in all material respects during the Track Record Period, the Sponsor is of the view that there is no material deficiency in the internal control procedures of our Group in relation to the receipt of temporary deposits during the Track Record Period.

Our other payables and accrued liabilities decreased by approximately HK\$7.2 million to approximately HK\$15.2 million as at 31 December 2012 mainly due to the reduction of dividend payable and employee entitlements as at 31 December 2012.

Balances due to banks

To meet our Group's funding requirements in different currencies, our dealers engage in currency swaps with banks at each day end so as to cover all applicable currency positions for settlements of ongoing obligations. Balances due to banks represent the short position of particular currencies with banks under swap. Swap cost is charged by banks for the use of financing under swaps. However, the overall balances maintained with banks must still be positive. The change in balances due to banks reflects the incidental change of swap positions at the respective day ends. Balances due to banks were nil as at 31 December 2012 since there were no outstanding currency swaps payable to banks as at that date.

MATERIAL ACQUISITIONS AND DISPOSALS

During the two years ended 31 December 2011 and 31 December 2012, our Group did not have any material acquisitions and disposals. Details of the transfer of money changing business are set out in the section headed "History and Reorganisation" in this prospectus.

CHARGES ON GROUP ASSETS

As at 31 December 2011, 31 December 2012 and 30 April 2013 (being the date for determining our Group's indebtedness), certain bank balances of our Group amounting to approximately HK\$26.1 million, HK\$19.8 million and HK\$14.4 million, respectively, were used to secure the banking facilities granted to our Group. The secured deposits are mainly used as guarantee for the issue of corporate credit cards for our staff and security for the grant of cash dealing lines for operation by our dealers and overdraft facility for short term cash management purpose. In January 2012, the facility for the corporate credit cards had been cancelled and the relevant deposits used as guarantee had been released. The amount of deposits used to guarantee the issue of corporate credit cards for our staff was HK\$1.0 million. The purpose of issuing the corporate credit cards was for business related expenses of our staff. The reason for cancelling the corporate credit cards in January 2012 was due to the low usage rate by our staff.

FINANCIAL INFORMATION

KEY FINANCIAL RATIOS ANALYSIS

The table below is a summary of the key financial ratios of our Group during the Track Record Period:

		Year ended 31 December	
	Notes	2011	2012
Net profit margin before interest and tax	1	32.5%	2.2%
Net profit/(loss) margin	2	22.9%	(1.4)%
Return/(Loss) on equity	3	18.3%	(0.8)%
Return/(Loss) on total assets	4	8.1%	(0.4)%

		As at 31 December	
	Notes	2011	2012
Current ratio	5	1.9	2.3
Gearing ratio	6	8.4%	2.0%

Notes:

1. *Net profit margin before interest and tax represents net profit before interest and taxes divided by total income.*
2. *Net profit margin represents net profit for the year divided by total income.*
3. *Return on equity represents profit for the year divided by average total equity.*
4. *Return on total assets represents profit for the year divided by average total assets.*
5. *Current ratio represents current assets divided by current liabilities.*
6. *Gearing ratio represents total debts (being payables incurred not in the ordinary course of business) divided by total equity.*

Net profit margin before interest and tax

Our net profit margin before interest and tax decreased from approximately 32.5% for the year ended 31 December 2011 to approximately 2.2% for the year ended 31 December 2012 mainly due to the increase in fees and commission expenses to income ratio as a result of the lower market volatility during that year as compared to that during the year ended 31 December 2011 together with the additional Listing expenses and the exchange loss incurred for the year ended 31 December 2012.

Net profit/(loss) margin

Our net profit margin decreased from approximately 22.9% for the year ended 31 December 2011 to a net loss margin of approximately 1.4% for the year ended 31 December 2012 mainly due to the reasons similar to our net profit margin before interest and tax as described above.

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Return/(Loss) on equity

The return on equity of our Group decreased from approximately 18.3% for the year ended 31 December 2011 to a loss on equity of approximately 0.8% for the year ended 31 December 2012 as a result of the net loss of approximately HK\$1.7 million incurred for the year ended 31 December 2012.

Return/(Loss) on total assets

Due to the similar reasons mentioned above, the return on total assets of our Group decreased from approximately 8.1% for the year ended 31 December 2011 to a loss on total assets of approximately 0.4% for the year ended 31 December 2012.

Current ratio

The current ratio of our Group remained stable at approximately 1.9 and 2.3 as at 31 December 2011 and 31 December 2012, respectively. The high liquidity of our Group was mainly attributable to the high level of cash and bank balances.

Our Group's high current ratio during the Track Record Period was due to:

- (a) there had been no borrowing from external parties while our Group had not financed our clients;
- (b) all our operating subsidiaries were regulated entities which were required to comply with the local regulatory capital requirements. Under such requirements, additional buffer was required to build in the capital to cover the potential risks encountered by such operating subsidiaries; and
- (c) the Pre-Listing Investors injected HK\$57.0 million into our Company in May 2012.

Gearing ratio

The gearing ratio of our Group was approximately 8.4% and 2.0% as at 31 December 2011 and 31 December 2012, respectively. The change in gearing ratio at the year ends was due to the changes in the amounts due to ultimate holding company/fellow subsidiaries and the balances due to banks. The change in balances due to banks reflects the incidental change of swap positions at the respective day ends. Balances due to banks were nil as at 31 December 2012 since there were no outstanding currency swaps payable to banks as at that date.

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INDEBTEDNESS

The following table sets forth our Group's indebtedness:

	As at 31 December		As at
	2011	2012	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(unaudited)
Balances due to banks	14,172	–	–
Finance lease obligation	428	348	317
Amounts due to ultimate holding company/ fellow subsidiaries	<u>1,129</u>	<u>4,381</u>	<u>2,261</u>
	<u><u>15,729</u></u>	<u><u>4,729</u></u>	<u><u>2,578</u></u>

As at 30 April 2013, being the date for determining our Group's indebtedness, we had a total indebtedness of approximately HK\$2.6 million. Our Group had unutilised bank overdraft facility of HK\$9.0 million as at 30 April 2013.

The amounts due to ultimate holding company and fellow subsidiaries are unsecured, non-interest bearing and repayable on demand, which will be fully settled prior to the Listing.

CONTINGENT LIABILITIES

In 2010, our Group provided a subordinated loan facility to KVB Securities, a wholly owned subsidiary of KVB Holdings, to the extent of HK\$11 million for the provision of liquid capital to KVB Securities with a term of five years after 23 April 2010, being the date of the subordinated loan agreement. Such subordinated loan had been fully repaid and the relevant subordinated loan agreement was terminated in August 2011. Our Group has no present intention to enter into similar loan going forward.

Other than the above, as at 31 December 2011, 31 December 2012 and 30 April 2013, our Group did not have any material contingent liabilities.

Except as described above, as at 30 April 2013, being the date for determining our Group's indebtedness, our Group did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

Our Directors have confirmed that save as disclosed above, there has been no material adverse change in indebtedness and contingent liabilities since 30 April 2013, being the date for determining our Group's indebtedness.

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COMMITMENTS

Capital commitments

	As at 31 December		As at 30 April
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Capital commitments in respect of computer software	<u>2,198</u>	<u>915</u>	<u>915</u> (unaudited)

Operating lease commitments

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

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

	As at 31 December		As at 30 April
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Within one year	14,357	15,207	15,298
One to five years	32,787	22,208	17,390
Over five years	<u>509</u>	<u>–</u>	<u>–</u>
	<u>47,653</u>	<u>37,415</u>	<u>32,688</u>

Credit commitments

In 2010, our Group provided a subordinated loan facility to KVB Securities to the extent of HK\$11 million or the net asset value of KVB Securities, whichever is lower. With the consent of the SFC, the subordinated loan facility was fully settled in August 2011.

WORKING CAPITAL

Our Directors are of the opinion that after taking into account the cash flows from operating activities and the existing financial resources available to our Group, including internally generated funds, the available banking facility and the estimated net proceeds of the Placing, we have sufficient working capital for our present requirements for at least the next 12 months from the date of this prospectus.

FINANCIAL INFORMATION

RELATED PARTY TRANSACTIONS

The table below sets forth the details of the related party transactions as laid down in note 27 to the accountant's report in Appendix I to this prospectus.

	Year ended 31 December		Business nature of the related party	Whether to continue after the Listing
	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>		
Management fee income				
for the provision of group management, information technology, marketing and administration support from:				
KVB FX	4,329	2,657	Provision of money changing services	Yes
KVB FX Pty	7,304	4,868	Provision of money changing services	Yes
KVB CA	768	391	Provision of money changing services	No
KVB Securities	201	–	Provision of securities brokerage services	No
KVB AM (HK)	201	–	Provision of asset management services	No
	<u>12,803</u>	<u>7,916</u>		
Interest income on advances to:				
KVB Securities	56	–	Provision of securities brokerage services	No
KVB FX	–	–	Provision of money changing services	No
	<u>56</u>	<u>–</u>		
Commission income shared from:				
KVB Securities	370	39	Provision of securities brokerage services	No
	<u>370</u>	<u>39</u>		

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	Year ended		Business nature of the related party	Whether to continue after the Listing
	31 December			
	2011	2012		
	<i>HK\$'000</i>	<i>HK\$'000</i>		
Handling fee income from:				
KVB FX	244	–	Provision of money changing services	No
	<u> </u>	<u> </u>		
	<u>244</u>	<u>–</u>		
Management fee expenses for the provision of information technology support, financial system and website maintenance services, marketing promotion, client services and reconciliation to:				
KVB Holdings	<u>2,821</u>	<u>2,543</u>	Investment holding	Yes
KVB FX Pty	164	82	Provision of money changing services	No
KVB FX	142	–	Provision of money changing services	No
	<u> </u>	<u> </u>		
	<u>306</u>	<u>82</u>		
Expenses recharged to:				
KVB Holdings	<u>12,669</u>	<u>–</u>	Investment holding	No

Our Directors are of the view that each of the related party transactions above was on normal commercial terms and on an arm's length basis between the relevant parties.

OFF BALANCE SHEET TRANSACTIONS

Our Group did not enter into any material off balance sheet transactions or arrangements during the Track Record Period.

FINANCIAL INFORMATION

DIVIDEND AND DIVIDEND POLICY

For the two years ended 31 December 2011 and 31 December 2012, our subsidiaries declared dividends of approximately HK\$30.3 million and HK\$14.0 million to their then respective shareholders, respectively. The dividend declared during the Track Record Period had been fully settled in cash as at the Latest Practicable Date.

Save for the above, our Company or our subsidiaries did not declare nor pay any dividends to the then shareholders during the Track Record Period.

On 21 May 2013 and 3 June 2013, our Company declared special dividends in the aggregate amount of HK\$16 million, HK\$10 million of which had been settled in cash as at the Latest Practicable Date and the remaining had been settled in cash as at the date of this prospectus.

After completion of the Placing, our Shareholders will be entitled to receive dividends only when declared by our Directors. The payment and the amount of any future dividends will be at the discretion of our Directors and will depend on, among others, our Group's earnings, financial condition, cash requirements and availability, and other factors as our Directors may deem relevant. Our Directors currently have no intended dividend payment ratio for the year ending 31 December 2013. Because such factors and the payment of dividends are at the discretion of our Board which reserves the right to change its plan on the payment of dividends, there can be no assurance that any particular dividend amount, or any dividend at all, will be declared and paid in the future. Prospective investors should note that historical dividend payments should not be regarded as an indication of our future dividend policy.

PROPERTY INTERESTS

As at the Latest Practicable Date, our Group leased a total of five premises in New Zealand, Australia, Hong Kong and Beijing from Independent Third Parties as our offices.

Please refer to the paragraph headed "Property interest" in the section headed "Business" in this prospectus for further details of our leased properties.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets of our Group prepared in accordance with Rule 7.31 of the GEM Listing Rules is for illustrative purpose only, and is set out below to illustrate the effect of the Placing on the net tangible assets of our Group attributable to the equity holders of our Company as at 31 December 2012 as if the Placing had taken place on 31 December 2012.

Because of its hypothetical nature, this unaudited pro forma statement of adjusted net tangible assets may not give a true picture of the consolidated net tangible assets of our Group as at 31 December 2012 or at any future dates following the Placing. It is prepared based on the consolidated net assets

FINANCIAL INFORMATION

of our Group as at 31 December 2012 as set out in the accountant's report of our Group, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the accountant's report.

	Audited consolidated net tangible assets attributable to the equity holders of our Company as at 31 December 2012 ^(Note 1) HK\$'000	Estimated net proceeds of the Placing ^(Note 2) HK\$'000	Unaudited pro forma adjusted net tangible assets attributable to the equity holders of our Company HK\$'000	Unaudited pro forma adjusted net tangible assets per Share ^(Note 3) HK\$
Based on the Placing Price of HK\$0.452 per Placing Share	<u>232,423</u>	<u>139,008</u>	<u>371,431</u>	<u>0.186</u>

Notes:

1. *The audited consolidated net tangible assets attributable to the equity holders of our Company as at 31 December 2012 is extracted from the accountant's report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of our Group attributable to the equity holders of our Company as at 31 December 2012 of approximately HK\$232,752,000 with an adjustment for the intangible assets as at 31 December 2012 of approximately HK\$329,000.*
2. *The estimated net proceeds of the Placing are based on the indicative Placing Price of HK\$0.452 per Placing Share after deduction of the Placing fees and other related expenses payable by our Company.*
3. *The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 2,000,000,000 Shares were in issue assuming that the Capitalisation Issue and the Placing were completed on 31 December 2012 but taking no account of any Share which may be allotted and issued or repurchased by our Company pursuant to the paragraphs headed "General mandate to issue Shares" and "General mandate to repurchase Shares" in the section headed "Share Capital" in this prospectus.*
4. *No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to 31 December 2012.*

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT RISKS

(a) Market risk

(i) Interest rate risk

Interest rate risk arises from movements in interest rates and mismatch of fixed and floating rates between funding and investing activities. Our Group is exposed to material interest rate risk as our Group invests all surplus funds in call accounts with reputable banks and is susceptible to movements in call interest rates. Interest rate risk arises from unexpected changes in interest rates which may result in an adverse impact on our Group's current and near future performance. Our Group has not used any interest rate swaps nor forward interest rate contracts to hedge our exposure to interest rate risk.

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(ii) Forex risk

Exchange rate fluctuation is the most significant risk in leveraged forex trading. Our Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on our financial position and cash flows. Our Group is exposed to forex risk arising from various currency exposures, primarily with respect to NZD and AUD. Our Group will suffer loss if we fail to cover a client deal at a better exchange rate. Our Group monitors forex exposure by reviewing the open positions of our Group and client trading performance. The risk is measured by the use of sensitivity analysis and cash flow forecasting. Dealing limits are in place for monitoring positions, thus controlling our market risk exposure. To avoid taking excessive forex risk, our dealers are not allowed to hold a net position greater than the pre-approved number of lots for all currency pairs in different dealing books. After the dealing limit is reached, our dealers are required to enter into hedge transactions and not to hold any further open positions. Market risk is also mitigated by our dealing rooms having a daily/shift loss limit. Once the loss limit is reached, the chief executive officer of our Company, namely Mr. Liu Stefan, will be reported to for appropriate action. Our risk and compliance department closely monitors the dealing room profit or loss and positions on a daily basis. Dealing limit of daily loss and/or year-to-date loss, and position limits are reviewed by our risk and compliance department and our management.

Based on the net asset/liability values in different currencies as at 31 December 2011 and 31 December 2012, the impact on our Group's forex gain/loss in response to the movement in forex rate is summarised below:

Foreign currency risk	Movement in foreign currency	31 December 2011	2012
AUD	appreciated by/ depreciated by 5%	increased by/ decreased by approximately HK\$571,000	increased by/ decreased by approximately HK\$978,000
JPY	appreciated by/ depreciated by 5%	increased by/ decreased by approximately HK\$29,000	increased by/ decreased by approximately HK\$116,000
NZD	appreciated by/ depreciated by 5%	decreased by/ increased by approximately HK\$384,000	increased by/ decreased by approximately HK\$841,000
USD	appreciated by/ depreciated by 1%	increased by/ decreased by approximately HK\$1,625,000	increased by/ decreased by approximately HK\$723,000

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Our management considers the foreign currency risk of other currencies as insignificant as the majority of our operations and transactions are in NZD and AUD.

(b) Credit risk

Credit risk refers to the risk which market maker defaults on its contractual obligations resulting in financial loss to our Group. Our Group is exposed to credit risk from accounts receivable from clients and market makers, bank balances and other assets and receivables. After evaluating our clients' risk profiles, our Group will set stop-out level for our clients. Once our clients' equity drops to the stop-out level, our Group's system will automatically liquidate our clients' positions. Without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk is the carrying amount of these assets.

Our Group's bank deposits are held with banks and balances due from agents are held with major financial institutions and our management reviews the creditworthiness of the banks and financial institutions on a regular basis. The banks and financial institutions are of high credit quality and substantially with a rating of grade A or with long established relationships. The credit risk associated with these balances is deemed insignificant.

Our Group is also subject to credit risk relating to other assets and receivables from our ultimate holding company and fellow subsidiaries. The credit risk relating to our other assets and receivables from our ultimate holding company and fellow subsidiaries is treated as any other receivables in the normal course of business. The utilisation of credit limits has been closely monitored on a daily basis, taking into account the financial position and past experience. Our Group has not experienced any losses from non-performance by our ultimate holding company and fellow subsidiaries. The credit risk associated with these balances is considered to be low.

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.

(c) Liquidity risk

Our Group's operations are subject to various statutory liquidity requirements as prescribed by the authorities. Our Group has put in place monitoring system to ensure that we maintain adequate liquid capital to fund our business commitments and to comply with the regulatory requirements. The liquidity risk of our Group is managed by regularly monitoring current and expected liquidity requirements to ensure that we maintain sufficient reserves of cash and current working capital to meet our liquidity requirements in the short and longer term. Our Group holds sufficient cash and deposits on demand to repay our liabilities.

DISTRIBUTABLE RESERVES

As at 31 December 2012, our Group had share premium of HK\$56.9 million and no retained earnings available for distribution to our Shareholders.

FINANCIAL INFORMATION

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

Our Directors have confirmed that, save as disclosed above, they are not aware of any circumstances which would give rise to the disclosure obligation under Rules 17.15 to 17.21 of the GEM Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2012, being the date on which the latest audited financial statements of our Group were made up.

BUSINESS OBJECTIVES AND FUTURE PLANS

BUSINESS OBJECTIVES AND 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 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.

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. At present, our Company does not have any concrete plan for issuing a dual-currency credit card going forward. 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:

- (a) expansion of operations in the worldwide overseas Chinese and Japanese communities;
- (b) increase in the range of our financial services and products;
- (c) further upgrade of our online trading platform; and
- (d) strategic growth through mergers and acquisitions.

Please refer to the paragraph headed "Our business strategies" in the section headed "Business" in this prospectus for a detailed description of our business strategies.

IMPLEMENTATION PLAN

In light of the business objectives of our Group, we will seek to attain the milestones contained in this paragraph from the Latest Practicable Date to 31 December 2015. Prospective investors should note that the milestones and their scheduled times for attainment are formulated on the bases and assumptions referred to in the paragraph headed "Bases and assumptions" in this section. These bases and assumptions are inherently subject to many uncertainties, variables and unpredictable factors, in particular the risk factors set out in the section headed "Risk Factors" in this prospectus. Our Group's actual course of business may vary from the business objectives set out in this prospectus. There can be no assurance that the plans of our Group will materialise in accordance with the expected time frame or that the objectives of our Group will be accomplished at all. Based on the current state of the short-term consumer finance industry, our Directors intend to carry out the following implementation plans:

BUSINESS OBJECTIVES AND FUTURE PLANS

1. Expansion of operations in the worldwide overseas Chinese and Japanese communities

From the Latest Practicable date to 31 December 2013	30 June 2014	For the six months ending		
	30 June 2014	31 December 2014	30 June 2015	31 December 2015
(a) Identifying potential hot spots to develop new branches or subsidiaries	Performing due diligence studies on and preparation works for the set-up of operations in selected potential	Commencing operations of a new branch or subsidiary in a new hot spot	Performing due diligence studies on and preparation works for the set-up of operations in selected potential	Commencing operations of a new branch or subsidiary in a new hot spot
(b) Performing due diligence studies on the rules and compliance of operating forex related business in potential locations	locations		locations	

Amount to be invested from the net proceeds of the Placing (HK\$):

1,500,000	8,000,000	9,000,000	9,500,000	8,000,000
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BUSINESS OBJECTIVES AND FUTURE PLANS

2. Increase in the range of our financial services and products

From the Latest Practicable date to 31 December 2013	For the six months ending			
	30 June 2014	31 December 2014	30 June 2015	31 December 2015
(a) Performing market studies to explore commercial viability for new products and allocating additional capital as margin collaterals with existing or new market makers for increased dealing facilities to expand dealing capacity and as reserves for fulfilling regulatory liquid capital requirements to cope with growth in business through opening of new branches and subsidiaries	Nil	Providing funding for dealing facilities	Nil	Providing funding for dealing facilities
(b) Performing feasibility study for, and if possible, implementing settlement of client accounts in RMB				
(c) Increasing the range of RMB cross trade currency pairs				
(d) Expanding our trading platform to smartphone and tablet computer interfaces				

Amount to be invested from the net proceeds of the Placing (HK\$):

5,000,000	Nil	20,000,000 ^(Note)	Nil	10,000,000 ^(Note)
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Note: The funding for dealing facilities is expected to be provided in line with the commencement of operations of a new branch or subsidiary in the second half of 2014 and 2015 as disclosed in plan 1 above.

BUSINESS OBJECTIVES AND FUTURE PLANS

3. Further upgrade of our online trading platform

From the Latest Practicable date to 31 December 2013	For the six months ending			
	30 June 2014	31 December 2014	30 June 2015	31 December 2015
(a) Developing new trading platform to support mobile trading on trading system (b) Developing dealing manager for better monitoring of client's and our Group's net positions in dealing room (c) Enhancing trading system to support straight through deals coverage with liquidity providers (d) Rolling out distributed architecture of trading system to shared workloads among servers located in New Zealand and Hong Kong	(a) Upgrading existing trading system to new version (b) Upgrading or re-developing all existing self-developed applications to support the new version of trading system	(a) Acquiring new servers and hardware equipments to support the roll out of the new version of trading system (b) Enhancing the network connection and in-house network infrastructure between our offices and external internet connection to support the roll out of the new version of trading system	Developing new applications in trading system to support changing business need	Developing new applications in trading system to support changing business need

Amount to be invested from the net proceeds of the Placing (HK\$):

5,000,000	8,000,000	5,000,000	5,000,000	5,000,000
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BUSINESS OBJECTIVES AND FUTURE PLANS

4. Strategic growth through mergers and acquisitions

From the Latest Practicable date to 31 December 2013	30 June 2014	For the six months ending		
		31 December 2014	30 June 2015	31 December 2015
Researching on the mode of business cooperation for business expansion	Establishing business model and defining key criteria to start business cooperation or through merger and acquisition	Identifying potential investment opportunity	Identifying potential investment opportunity	Shortlisting and finalising investment decision

Amount to be invested from the net proceeds of the Placing (HK\$):

1,000,000	6,000,000	3,000,000	8,000,000	3,000,000
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BASES AND ASSUMPTIONS

The business objectives set out by our Directors are based on the following bases and assumptions:

- we will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business objectives relate;
- there will be no material changes in existing laws, rules and regulations, or other governmental policies relating to our Group, or in the political, economic or market conditions in which our Group operates;
- there will be no change in the funding requirement for each of the near term business objectives described in this prospectus from the amount as estimated by our Directors;
- there will be no material changes in the bases or rates of taxation applicable to the activities of our Group;
- there will be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of our Group;
- there will be no change in the effectiveness of the authorisations and licences obtained by us;

BUSINESS OBJECTIVES AND FUTURE PLANS

- we will continue to be able to renew all authorisations and licences; and
- we will not be materially affected by the risk factors as set out under the section headed “Risk Factors” in this prospectus.

REASONS FOR THE PLACING AND USE OF PROCEEDS

The Placing will enhance our capital base and provide us with additional working capital to implement the future plans set out in the paragraph headed “Business Objectives and Strategies” in this section.

The net proceeds of the Placing based on the Placing Price of HK\$0.452 per Placing Share, after deducting related expenses, are estimated to be approximately HK\$125.3 million. Our Directors presently intend that the net proceeds will be applied as follows:

	From the Latest Practicable Date to		For the six months ending			Total
	31 December 2013 (HK\$)	30 June 2014 (HK\$)	31 December 2014 (HK\$)	30 June 2015 (HK\$)	31 December 2015 (HK\$)	
Expansion of operations in the worldwide overseas Chinese and Japanese communities	1,500,000	8,000,000	9,000,000	9,500,000	8,000,000	36,000,000
Increase in the range of our financial services and products	5,000,000	Nil	20,000,000	Nil	10,000,000	35,000,000
Further upgrade of our online trading platform	5,000,000	8,000,000	5,000,000	5,000,000	5,000,000	28,000,000
Strategic growth through mergers and acquisitions	1,000,000	6,000,000	3,000,000	8,000,000	3,000,000	21,000,000
Total net proceeds	<u>12,500,000</u>	<u>22,000,000</u>	<u>37,000,000</u>	<u>22,500,000</u>	<u>26,000,000</u>	<u>120,000,000</u>

BUSINESS OBJECTIVES AND FUTURE PLANS

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

The net proceeds of the Placing will be fully utilised by 31 December 2015 according to our current business plans. We will finance our plans as scheduled after 31 December 2015 from internal resources. Our Directors and the Sponsor consider that the net proceeds of the Placing of approximately HK\$125.3 million and our internal resources will be sufficient to finance our business plans as scheduled up to 31 December 2015.

To the extent that the net proceeds of the Placing are not immediately required for the above purpose, it is the present intention of our Directors that such parts of the net proceeds will be placed on short-term interest bearing deposits with authorised financial institutions.

The Placing Shares are not underwritten and the Placing is managed by the Joint Lead Managers on a best-efforts basis, subject to the terms and conditions of the Placing Agreement. Further details about the Placing Agents and the Placing arrangements are contained in the section headed “Structure of the Placing” in this prospectus. **Should the amount of gross proceeds raised under the Placing be less than HK\$155,191,940 (being 343,345,000 Placing Shares times the Placing Price of HK\$0.452 per Placing Share), the Placing will not proceed.**

STRUCTURE OF THE PLACING

PLACING AGENTS

Cinda International Securities Limited (Bookrunner and Joint Lead Manager)

Quam Securities Company Limited (Joint Lead Manager)

VC Brokerage Limited

RHB OSK Securities Hong Kong Limited

PLACING ARRANGEMENTS

The Placing Agreement

Pursuant to the Placing Agreement, our Company is offering the Placing Shares for subscription by institutional, professional and other investors at the Placing Price subject to the terms and conditions in the Placing Agreement and this prospectus. Subject to, among other conditions, the Listing Division granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the Capitalisation Issue and the Placing and upon the exercise of the options that may be granted under the Share Option Scheme) and to certain other conditions set out in the Placing Agreement being satisfied, the Placing Agents have severally agreed to subscribe for or procure subscribers for their respective applicable proportions of the Placing Shares on the terms and conditions of the Placing Agreement and this prospectus.

Grounds for termination

The Sponsor or the Bookrunner (for itself and on behalf of the other Placing Agents) shall have the absolute right to terminate the arrangements set out in the Placing Agreement by notice in writing given to our Company at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date, if there shall develop, occur, exist or come into effect:

- (a) any new law or regulation or any material change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the PRC, the Cayman Islands, the BVI, New Zealand, Australia or any relevant jurisdiction;
- (b) any adverse change (whether or not permanent) in local, national or international stock market conditions;
- (c) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise;
- (d) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the PRC, the Cayman Islands, the BVI, New Zealand, Australia or any relevant jurisdiction;

STRUCTURE OF THE PLACING

- (e) any change in the business or in the financial or trading position of our Group or otherwise;
- (f) any change or development (whether or not permanent), or any event or series of events resulting in any change in the financial, legal, political, economic, military, industrial, fiscal, regulatory, market (including stock market) or currency matters or condition in Hong Kong, the PRC, the Cayman Islands, the BVI, New Zealand, Australia or any relevant jurisdiction;
- (g) a general moratorium on commercial banking business activities in Hong Kong, the PRC, the Cayman Islands, the BVI, New Zealand, Australia or any relevant jurisdiction declared by the relevant authorities; or
- (h) any event of force majeure including but without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike, lock-out, natural disaster or outbreak of infectious diseases,

which in the reasonable opinion of the Sponsor or the Bookrunner (for itself and on behalf of the other Placing Agents):

- (i) might be materially adverse to the business, financial condition or prospects of our Group taken as a whole;
- (ii) might have a material adverse effect on the success of the Placing or might have the effect of making any part of the Placing Agreement incapable of implementation or performance in accordance with its terms; or
- (iii) makes it inadvisable or inexpedient to proceed with the Placing.

Without prejudice to the above, if, at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date, it comes to the notice of the Sponsor or the Bookrunner (for itself and on behalf of the other Placing Agents):

- (a) any breach of any of the warranties or any other provision of the Placing Agreement which is considered, in the reasonable opinion of the Sponsor or the Bookrunner (for itself and on behalf of the other Placing Agents), to be material in the context of the Placing;
- (b) any matter which, had it arisen immediately before the date of this prospectus and not having been disclosed in this prospectus and the placing letter, would have constituted a material omission in the reasonable opinion of the Sponsor or the Bookrunner (for itself and on behalf of the other Placing Agents) in the context of the Placing;

STRUCTURE OF THE PLACING

- (c) any statement contained in this prospectus and the placing letter reasonably considered to be material by the Sponsor or the Bookrunner (for itself and on behalf of the other Placing Agents) which is discovered to be or becomes untrue, incorrect or misleading and in the reasonable opinion of the Sponsor or the Bookrunner (for itself and on behalf of the other Placing Agents) to be material in the context of the Placing; or
- (d) any event, act or omission which gives rise or is likely to give rise to any material liability of any of our Company and our Controlling Shareholders pursuant to the indemnities contained in the Placing Agreement,

the Sponsor or the Bookrunner (for itself and on behalf of the other Placing Agents) shall be entitled (but not bound) by notice in writing to our Company (for itself and on behalf of the other parties hereto (other than the Sponsor, the Bookrunner and the other Placing Agents)) on or prior to such time to terminate the Placing Agreement.

Undertakings

Under the Placing Agreement:

- (a) each of our Controlling Shareholders undertakes to and covenants with our Company, the Sponsor, the Bookrunner, the other Placing Agents and the Stock Exchange that:
 - (i) save as permitted under the GEM Listing Rules, it/he shall not and shall procure that the relevant registered holders shall not:
 - (A) in the period commencing on the date by reference to which disclosure of the shareholding of our Controlling Shareholder is made in this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-Month Period**”), sell, dispose of, nor enter into any agreement to dispose of or otherwise create any encumbrances in respect of, any of the Shares in respect of which it/he is shown in this prospectus to be the beneficial owner(s); and
 - (B) in the period of six months commencing on the date immediately following the date on which the First Six-Month Period expires, sell, dispose of, nor enter into any agreement to dispose of or otherwise create any encumbrances in respect of any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such encumbrances, it/he would cease to be a controlling shareholder (as defined in the GEM Listing Rules) of our Company,

provided that the restrictions above shall not apply to any Shares which our Controlling Shareholders or any of its/his respective associates may acquire or become interested in following the Listing Date.

STRUCTURE OF THE PLACING

- (ii) in the event that it/he pledges or charges any of its/his direct or indirect interest in the Shares under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules at any time during the relevant periods specified in paragraph (a)(i) above, it/he must inform our Company, the Sponsor and the Bookrunner immediately thereafter, disclosing the details as specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and
 - (iii) having pledged or charged any of its/his interests in the Shares under paragraph (a)(ii) above, it/he must inform our Company and the Bookrunner immediately in the event that it/he becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the Shares affected.
- (b) our Company undertakes to and covenants with the Sponsor, the Bookrunner and the other Placing Agents, and each of our Controlling Shareholders jointly and severally undertakes to and covenants with the Sponsor, the Bookrunner and the other Placing Agents to procure that, save with the prior written consent of the Sponsor and the Bookrunner (for itself and on behalf of the other Placing Agents), or save pursuant to the Placing, the Capitalisation Issue, the grant of options under the Share Option Scheme or the exercise of the options which may be granted under the Share Option Scheme, our Company shall not, within the period of six months from the Listing Date:
 - (i) save as permitted under the GEM Listing Rules (including but not limited to Rule 17.29 of the GEM Listing Rules) and the applicable laws, allot or issue or agree to allot or issue any Shares or any other securities in our Company (including warrants or other convertible securities (and whether or not of a class already listed));
 - (ii) grant or agree to grant any options, warrants or other rights carrying any rights to subscribe for or otherwise convert into, or exchange for any Shares or any other securities of our Company;
 - (iii) purchase any securities of our Company; or
 - (iv) offer to or agree to do any of the foregoing or announce any intention to do so.

Total commission, fee and expenses

In connection with the Placing, the Placing Agents will receive a Placing commission of 1.0% of the aggregate Placing Price of all the Placing Shares, out of which they will pay any sub-placing commissions and selling concessions. In relation to the Listing, the Sponsor will receive financial advisory and documentation fees and will be reimbursed for its expenses. Such commission, advisory and documentation fees and expenses, together with the Listing fees, the legal and other professional fees, and the printing and other Listing expenses are estimated to be approximately HK\$45.0 million, in which approximately HK\$15.1 million were recharged to KVB Holdings and the balance of approximately HK\$29.9 million will be borne by our Company.

STRUCTURE OF THE PLACING

Our Company has agreed to indemnify the Placing Agents for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Placing Agreement, and any breach by our Company of the Placing Agreement.

Placing Agents' interest in our Company

Save as disclosed above, none of the Placing Agents has any shareholding interests in any member of our Group nor has any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Shares.

THE PLACING

Placing

The Placing comprises 343,345,000 Placing Shares conditionally offered by our Company for subscription by way of private placements to professional, institutional or other investors. The Placing Shares will represent approximately 17.17% of our Company's enlarged issued share capital immediately after completion of the Capitalisation Issue and the Placing. The Placing Shares are not underwritten and the Placing is managed by the Joint Lead Managers on a best-efforts basis, subject to the terms and conditions of the Placing Agreement. The minimum subscription size for each subscriber of the Placing Shares is 5,000 Shares and thereafter in integral multiples of board lot size of 5,000 Shares. Investors subscribing for the Placing Shares are required to pay the Placing Price plus brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.003% for each board lot of 5,000 Shares.

Pursuant to the Placing, it is expected that the Placing Agents or the selling agents nominated by them will conditionally place the Placing Shares on behalf of our Company at the Placing Price with selected professional and institutional investors in Hong Kong. Professional, institutional and other investors generally include brokers, dealers, high net worth individuals and companies (including fund managers) whose ordinary business involves dealing and investing in shares and other securities.

Basis of allocation

Allocation of the Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to purchase further Shares or hold or sell the Shares after the Listing. Such allocation is intended to result in a distribution of the Placing Shares which would lead to the establishment of a solid professional and institutional shareholder base for the benefit of our Company and our Shareholders as a whole. In particular, Placing Shares will be allocated pursuant to Rule 11.23(8) of the GEM Listing Rules such that no more than 50% of the Shares in public hands at the time of the Listing will be owned by the three largest public Shareholders. No allocation of the Placing Shares will be permitted to nominee companies unless the name of the ultimate beneficiary is disclosed. There will not be any preferential treatment in the allocation of the Placing Shares to any persons.

STRUCTURE OF THE PLACING

The Placing Shares are not underwritten and the Placing is managed by the Joint Lead Managers on a best-efforts basis, subject to the terms and conditions of the Placing Agreement. Should the amount of gross proceeds raised under the Placing be less than HK\$155,191,940 (being 343,345,000 Placing Shares times the Placing Price of HK\$0.452 per Placing Share), the Placing will not proceed.

The Placing is subject to the conditions as stated in the paragraph headed “Conditions of the Placing” in this section.

CONDITIONS OF THE PLACING

The Placing is conditional upon:

- (a) the Listing Division granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the Capitalisation Issue and the Placing and upon the exercise of the options that may be granted under the Share Option Scheme); and
- (b) the obligations of the Placing Agents under the Placing Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Sponsor or the Bookrunner (for itself and on behalf of the other Placing Agents)) and the Placing Agreement not being terminated in accordance with its terms or otherwise prior to 8:00 a.m. (Hong Kong time) on the Listing Date,

in each case on or before the dates and times specified in the Placing Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the 30th day after the date of this prospectus.

If such conditions have not been fulfilled or waived prior to the times and dates specified, the Placing will lapse and the Listing Division will be notified immediately. Notice of the lapse of the Placing will be published by our Company on the website of the Stock Exchange at www.hkexnews.hk and on our Company’s website at www.kvblastco.com on the next business day following such lapse.

PLACING PRICE

The Placing Price is HK\$0.452 per Placing Share (excluding brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.003%).

The following is the text of a report received from the reporting accountant of our Company, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to our Directors and the Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.



羅兵咸永道

11 June 2013

The Directors
KVB Kunlun Financial Group Limited

Quam Capital Limited

Dear Sirs,

We report on the financial information of KVB Kunlun Financial Group Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”), which comprises the consolidated balance sheets as at 31 December 2011 and 2012, the balance sheets of the Company as at 31 December 2011 and 2012, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for each of the years ended 31 December 2011 and 2012 (the “**Relevant Periods**”), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated 11 June 2013 (the “**Prospectus**”) in connection with the initial listing of shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on 9 November 2010 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation as described in Note 1.2 of Section II headed “Reorganisation” below, which was completed on 7 May 2012, the Company became the holding company of the subsidiaries now comprising the Group (the “**Reorganisation**”).

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 26 of Section II below. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

No audited financial statements have been prepared by the Company as it is newly incorporated and has not been involved in any significant business transactions since its date of incorporation, other than the Reorganisation. The audited financial statements of the other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies are set out in Note 26 of Section II.

The directors of the Company have prepared consolidated financial statements of the Company for the Relevant Periods, in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) (the “**Underlying Financial Statements**”). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with HKFRSs. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Financial Statements with no adjustment made thereon.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with HKFRSs and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

OPINION

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at 31 December 2011 and 2012 and of the state of affairs of the Group as at 31 December 2011 and 2012 and of the Group's results and cash flows for the Relevant Periods then ended.

I. FINANCIAL INFORMATION OF THE GROUP

The following is the financial information of the Group prepared by the directors of the Company as at 31 December 2011 and 2012 and for each of the years ended 31 December 2011 and 2012 (the "Financial Information"):

(A) Consolidated Statements of Comprehensive Income

		2011	2012
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Leveraged foreign exchange and other trading income	6	107,526	86,951
Cash dealing income	6	12,602	9,310
Other income	7	35,114	26,961
Total income		<u>155,242</u>	<u>123,222</u>
Fees and commission expenses		34,631	48,804
Staff costs	8	38,769	29,532
Depreciation and amortisation		2,637	2,307
Lease payments under land and buildings		6,521	5,777
Administrative and other operating expenses	9	22,234	34,064
Total expenses		<u>104,792</u>	<u>120,484</u>
Operating profit		50,450	2,738
Finance costs		(145)	(306)
Profit before tax		50,305	2,432
Income tax expense	10	(14,750)	(4,181)
Profit/(Loss) for the year		<u>35,555</u>	<u>(1,749)</u>
Other comprehensive income			
Currency translation difference		(2,254)	4,586
Other comprehensive income for the year, net of tax		<u>(2,254)</u>	<u>4,586</u>
Total comprehensive income for the year		<u>33,301</u>	<u>2,837</u>
Earnings/(Loss) per share for profit attributable to the equity holders of the Company for the year (expressed in HK\$ per share) – Basic and diluted earnings/(loss) per share ^(Note)	12	<u>3.93</u>	<u>(0.18)</u>
Dividends	11	<u>30,348</u>	<u>14,000</u>

Note: The earnings/(loss) per share as presented above has not taken into account the proposed capitalisation issue pursuant to the shareholders' resolution dated 3 June 2013 (Note 29) because the proposed capitalisation issue has not become effective as at the date of this report.

(B) Consolidated Balance Sheets

	<i>Note</i>	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment	<i>13</i>	5,585	5,894
Intangible assets	<i>14</i>	117	329
Deferred tax assets	<i>20</i>	667	438
		<u>6,369</u>	<u>6,661</u>
Current assets			
Tax prepayments		–	1,742
Other assets and prepayments	<i>15</i>	6,415	8,662
Amounts due from ultimate holding company	<i>27</i>	14,668	–
Amounts due from fellow subsidiaries	<i>27</i>	3,447	201
Derivative financial instruments	<i>16</i>	46,259	36,571
Balances due from agents	<i>17</i>	10,626	14,037
Cash and bank balances and client trust bank balances	<i>18</i>	309,251	340,132
Total current assets		<u>390,666</u>	<u>401,345</u>
Total assets		<u><u>397,035</u></u>	<u><u>408,006</u></u>
EQUITY AND LIABILITIES			
Share capital	<i>23</i>	–	100
Share premium	<i>23</i>	–	56,991
Capital reserve	<i>24</i>	171,892	171,892
Currency translation reserve		2,061	6,647
Retained earnings/(accumulated losses)		12,871	(2,878)
Total equity		<u><u>186,824</u></u>	<u><u>232,752</u></u>

	<i>Note</i>	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Current liabilities			
Finance lease obligations	19	128	151
Current income tax liabilities		4,629	328
Other payables and accrued liabilities	21	22,402	15,247
Amounts due to fellow subsidiaries	27	1,129	698
Amounts due to ultimate holding company	27	–	3,683
Derivative financial instruments	16	4,181	7,178
Clients' balances	22	163,095	147,590
Balances due to banks	18	14,172	–
		<u>209,736</u>	<u>174,875</u>
Non-current liabilities			
Finance lease obligations	19	300	197
Deferred tax liabilities	20	175	182
		<u>475</u>	<u>379</u>
Total liabilities		<u><u>210,211</u></u>	<u><u>175,254</u></u>
Total equity and liabilities		<u><u>397,035</u></u>	<u><u>408,006</u></u>
Net current assets		<u><u>180,930</u></u>	<u><u>226,470</u></u>
Total assets less current liabilities		<u><u>187,299</u></u>	<u><u>233,131</u></u>

(C) Balance Sheets of the Company

	<i>Note</i>	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
ASSETS			
Non-current assets			
Investment in a subsidiary	26	<u>1</u>	<u>1</u>
		----- 1	----- 1
Current assets			
Cash and bank balances		-	32,014
Amounts due from a subsidiary	27	-	23,252
Amounts due from ultimate holding company	27	15,317	-
Prepayments		<u>2,452</u>	<u>4,990</u>
Total current assets		<u>17,769</u>	<u>60,256</u>
		----- 17,769	----- 60,256
Total assets		<u><u>17,770</u></u>	<u><u>60,257</u></u>
		----- 17,770	----- 60,257
EQUITY AND LIABILITIES			
Share capital	23	-	100
Share premium	23	-	56,991
Accumulated losses		<u>(2,284)</u>	<u>(13,086)</u>
Total (deficit)/equity		<u>(2,284)</u>	<u>44,005</u>
		----- (2,284)	----- 44,005
Current liabilities			
Amounts due to subsidiaries	27	20,054	9,269
Other payables and accrued liabilities	21	<u>-</u>	<u>6,983</u>
Total liabilities		<u>20,054</u>	<u>16,252</u>
		----- 20,054	----- 16,252
Total equity and liabilities		<u><u>17,770</u></u>	<u><u>60,257</u></u>
		----- 17,770	----- 60,257
Net current (liabilities)/assets		<u><u>(2,285)</u></u>	<u><u>44,004</u></u>
		----- (2,285)	----- 44,004
Total assets less current liabilities		<u><u>(2,284)</u></u>	<u><u>44,005</u></u>
		----- (2,284)	----- 44,005

(D) Consolidated Statements of Changes in Equity

	<i>Note</i>	Share capital <i>HK\$'000</i>	Share Premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Currency translation reserve <i>HK\$'000</i>	Retained earnings/ (accumulated losses) <i>HK\$'000</i>	Total Equity <i>HK\$'000</i>
At 1 January 2011		-	-	171,892	4,315	25,794	202,001
Comprehensive income							
Profit for the year		-	-	-	-	35,555	35,555
Other comprehensive income for the year		-	-	-	(2,254)	-	(2,254)
Dividends	<i>11</i>	-	-	-	-	(48,478)	(48,478)
Balance at 31 December 2011		<u>-</u>	<u>-</u>	<u>171,892</u>	<u>2,061</u>	<u>12,871</u>	<u>186,824</u>
At 1 January 2012		-	-	171,892	2,061	12,871	186,824
Proceeds from shares issued	<i>23</i>	100	56,991	-	-	-	57,091
Comprehensive income							
Loss for the year		-	-	-	-	(1,749)	(1,749)
Other comprehensive income for the year		-	-	-	4,586	-	4,586
Dividends	<i>11</i>	-	-	-	-	(14,000)	(14,000)
Balance at 31 December 2012		<u>100</u>	<u>56,991</u>	<u>171,892</u>	<u>6,647</u>	<u>(2,878)</u>	<u>232,752</u>

(E) Consolidated Cash Flow Statements

	<i>Note</i>	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Cash flows from operating activities			
Profit before tax		50,305	2,432
Adjustments for:			
Depreciation and amortisation	<i>13 & 14</i>	2,637	2,307
Interest income		(1,902)	(1,571)
Gain on disposal of fixed assets		(103)	–
Cash flows from operating activities before working capital changes			
		50,937	3,168
(Increase)/decrease in pledged time deposits		(35)	6,307
(Increase)/decrease in client trust bank balances		(6,242)	19,238
Increase in balances due from agents		(2,690)	(3,411)
(Increase)/decrease in derivative financial instruments		(1,033)	12,685
Decrease/(increase) in other assets and prepayments		3,437	(2,306)
Decrease in amounts due from ultimate holding company		3,208	18,351
Decrease in amounts due from fellow subsidiaries		29,630	3,246
Decrease in amounts due to fellow subsidiaries		(19,837)	(431)
Decrease in clients' balances		(1,449)	(15,505)
Increase/(decrease) in other payables and accrued liabilities		2,166	(155)
Cash generated from operations		58,092	41,187
Income tax paid		(12,292)	(10,200)
Net cash generated from operating activities		45,800	30,987
Cash flows from investing activities			
Interest received		1,940	1,630
Decrease in subordinated loan to a fellow subsidiary		3,000	–
Purchase of property, plant and equipment and intangible assets	<i>13 & 14</i>	(4,772)	(2,730)
Proceeds from disposal of plant and equipment		131	–
Net cash generated from/(used in) investing activities		299	(1,100)

		2011	2012
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash flows from financing activities			
Proceeds from issuance of share capital	23	–	57,091
Repayment of finance lease obligations		(105)	(118)
Dividends paid	11	<u>(41,478)</u>	<u>(21,000)</u>
Net cash (used in)/generated from financing activities		<u>(41,583)</u>	<u>35,973</u>
Net increase in cash and cash equivalents		4,516	65,860
Cash and cash equivalents at beginning of year		176,153	178,052
Effect of foreign exchange rate changes, net		<u>(2,617)</u>	<u>4,738</u>
Cash and cash equivalents at end of year	18	<u><u>178,052</u></u>	<u><u>248,650</u></u>

II. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION OF THE GROUP AND REORGANISATION

1.1 General information

The Company was incorporated in the Cayman Islands on 9 November 2010 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The immediate and ultimate holding company of the Company is KVB Kunlun Holdings Limited, a company incorporated in British Virgin Islands. Mr Li Zhi Da (“**Mr Li**”) owns 75% of the issued share capital of the ultimate holding company. As the ultimate holding company is held as to 75% by Mr Li, both KVB Kunlun Holdings Limited and Mr Li are the controlling shareholders (the “**Controlling shareholders**”). The remaining 25% issued share capital of the ultimate holding company which is being held in trust by administrators for the three children of Mr Li and the late Ms Tsui Wang.

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

1.2 Reorganisation

In preparing for the listing of shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “**Listing**”), the Company underwent the Reorganisation, pursuant to which the group companies owned by the Controlling Shareholders were transferred to the Company. The Reorganisation involved the following:

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

Such transfers were completed by 7 May 2012.

2 BASIS OF PRESENTATION

For the purpose of this report, the financial statements of the Group has been prepared using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA. The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements of the Group for the years ended 31 December 2011 and 2012 have been prepared on a consolidated basis and include the financial statements of the companies under the common control of the Controlling Shareholders and now comprising the Group as if the current group structure had been in existence throughout the years ended 31 December 2011 and 2012. The consolidated balance sheets of the Group as at 31 December 2011 and 2012 have been prepared to present the assets and liabilities of the companies now comprising the Group as these dates, as if the current group structure had been in existence as at these dates.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of preparation

The financial statements of the Group have been prepared in accordance with HKFRSs issued by the HKICPA. The financial statements has been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss which are carried at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial information are disclosed in Note 5.

(a) Newly effective standard for the financial year from 1 January 2012 that is applicable to the Group.

Amendment to HKFRS 7, “Financial instruments: Disclosures on transfer of financial assets”. These amendments are as part of the International Accounting Standards Board’s comprehensive review of off balance sheet activities. The amendments promote transparency in the reporting of transfer transactions and improve user’s understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity’s financial position, particularly those involving securitisation of financial asset. The Group does not have any significant financial assets transferred that are affected by the amendment.

Other HKFRSs that are applicable for the financial year beginning on or after 1 January 2012 have no significant impact on the Group.

- (b) *The following new standards and amendments to standards have been issued but are not effective for the financial year ended 31 December 2012 which are relevant to the Group but the Group has not early adopted*

HKFRS 7 (Amendment), "Disclosures – Offsetting Financial Assets and Financial Liabilities". The amended disclosure requirements require entities to disclose quantitative information about recognised financial instruments that are offset in the statement of financial position in accordance with the criteria in HKAS 32, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. The Group is considering the impact of the standard and the timing of its application.

HKFRS 9 "Financial instruments" addresses the classification and measurement of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. HKFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. The standard requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is considering the impact of the standard and the timing of its application.

HKFRS 10 "Consolidated financial statements" replaces all of the guidance on control and consolidation in HKAS 27, 'Consolidated and separate financial statements', and HK(SIC)-12, 'Consolidation – special purpose entities'. The standard is effective for the accounting period beginning on or after 1 January 2013 but is available for early adoption. The new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. It is expected that the adoption of this revised standard will not have a significant impact on the Group's results of operations and its financial position.

HKFRS 10, HKFRS 12 and HKAS 27 (Amendments), "Investment Entities" (effective for annual periods beginning on or after January 2014). They apply to a particular class of business that qualify as investment entities as defined in the amendments. The Investment Entities amendments provide an exception to the consolidation requirements in HKFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities. The Group is considering the impact of the standard and the timing of its application.

HKFRS 12 'Disclosures of interests in other entities', effective for the accounting period beginning on or after 1 January 2013 but is available for early adoption. The new standard includes the disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. It is expected that the adoption of this revised standard will not have a significant impact on the Group's results of operations and its financial position.

HKFRS 13 "Fair value measurements" provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard is not applicable until 1 January 2013 but is available for early adoption. It is expected that the adoption of this revised standard will not have a significant impact on the Group's results of operations and its financial position.

HKAS 1 (Amendment) "Presentation of financial statements". The main change resulting from this amendment is a requirement for entities to group items presented in other comprehensive income on the basis of whether they are potential recycled to profit or loss (reclassified adjustment). The amendment does not address which items are presented in other comprehensive income. The amendment will be effective for annual periods beginning on or after 1 July 2012. It is expected that the adoption of this revised standard will not have a significant impact on the Group's results of operations and its financial position.

HKAS 19 (Amendment) "Employee benefits" eliminates the corridor approach and calculate finance costs on a net funding basis. The standard is not applicable until 1 January 2013 but is available for early adoption. It is expected that the adoption of this revised standard will not have a significant impact on the Group's results of operations and its financial position.

HKAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of HKAS 27 have been included in the new HKFRS 10. It is expected that the adoption of this revised standard will not have a significant impact on the Group's results of operations and its financial position.

HKAS 32 (Amendment), 'Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities'. The amendment addresses inconsistencies in current practice when applying the offsetting criteria and clarifies the meaning of 'currently has a legally enforceable right of set-off'; and the application of offsetting criteria to some gross settlement systems (such as central clearing house systems) that may be considered equivalent to net settlement. The Group is considering the financial impact of the amendment. It is expected that the adoption of this revised standard will not have a significant impact on the Group's results of operations and its financial position.

3.2 Consolidation

The financial statements include the consolidated financial statements of the Group made up for the years ended 31 December 2011 and 2012.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Except for the Reorganisation which has been described in Note 1 above, the Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Group Executive Team as its chief operating decision maker.

3.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**").

The financial statements are presented in Hong Kong dollars ("**HK\$**"), which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each consolidated statements of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

3.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Leasehold improvements	10 years or over the lease term, whichever is shorter
Computer equipment	3 to 5 years
Furniture, fixtures and equipment	3 to 5 years
Motor vehicles	3 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in 'other income' in the consolidated statements of comprehensive income.

3.6 Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment if any.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life (3 to 5 years) and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each balance sheet date.

3.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each balance sheet date.

3.8 Financial assets

3.8.1 Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. Management determines the classification of its financial assets at initial recognition.

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if it holds the asset primarily for the purpose of trading; otherwise, they are classified as non-current.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

3.8.2 *Recognition and measurement*

Regular-way purchases and sales of financial assets at fair value through profit or loss are recognised on trade-date – the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit or loss. Gains and losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are included directly in profit or loss and are reported as “leveraged foreign exchange and other trading income” in the period in which they arise. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Loans and receivables are carried at amortised cost using the effective interest method less impairment if any. The Group's receivables (including amounts due from group companies) and “cash and cash equivalents” fall under this category. Accounts receivables and amounts due from group companies are measured subsequently at amortised cost using the effective interest rate method. Interest on loans is included in the consolidated statements of comprehensive income and is reported as net interest income.

3.9 **Impairment of financial assets**

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset classified as loans and receivables is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “**loss event**”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, default or delinquency in payment, and clients' collateral are insufficient to cover outstanding loan balances are considered indications that the receivable is impaired.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market data.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit or loss.

When a loan is uncollectible, it is written off against the related allowances for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the profit or loss.

3.10 Derivative financial instruments

The Group classifies derivatives as financial assets or financial liabilities at fair value through profit or loss at inception. These financial assets and financial liabilities are classified as held for trading by the Board of Directors.

Financial assets or financial liabilities held for trading are those acquired or incurred principally for the purposes of selling or repurchasing in the short term. The Group does not classify any derivatives as hedges in a hedging relationship.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Gains or losses arising from changes in the fair value are recognised in the “leveraged foreign exchange and other trading income” in the period in which they arise.

3.11 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks, bank deposits with original maturities of three months or less, and balance due to banks.

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash and cash equivalents available for the disposition of the Group and exclude client trust bank balances, and bank deposits held to secure the banking facilities granted to the Group.

3.12 Rental, utility and other deposits

Rental, utility and other deposits held on a long term basis are stated at amortised cost using the effective interest method less impairment if any.

3.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the liabilities are due to be settled or the Group has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

3.14 Financial liabilities

Financial liabilities including other payables are recognised initially at fair value net of transaction costs incurred. Financial liabilities are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the profit or loss over the period of the other financial liabilities using the effective interest method. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

3.15 Provision

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. When the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3.16 Employee benefits

(a) *Retirement benefits scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “**Scheme**”) under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the profit or loss as they become payable in accordance with the rules of the Scheme.

The employees of the Group’s subsidiary, which operates in New Zealand, are eligible to participate in KiwiSaver plan on a voluntary basis. This subsidiary is required to contribute certain percentage of its payroll costs to the fund only if employees are making contribution to KiwiSaver plan. The contributions are charged to the profit or loss as they become payable in accordance with the rules of the fund.

The employees of the Group’s subsidiary, which operates in Australia, are required to participate in employee superannuation fund. This subsidiary is required to contribute certain percentage of its payroll costs to the fund. The contributions are charged to the profit or loss as they become payable in accordance with the rules of the fund.

The assets of the Scheme and other plans as described above are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the Scheme and other plans.

(b) *Annual leave*

Employee entitlements to annual leave are recognised when they are accrued to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

(c) *Bonus*

The Group recognises a liability and an expense for bonuses, in which the bonus scheme is at the discretion of the Group’s Directors based on the Group performance that takes into consideration the profit attributable to the Group after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

3.17 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividend on ordinary shares is recognised as a liability in the financial statements in the period in which it is approved by the shareholders or directors where appropriate.

3.18 Income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's subsidiaries operate and generate taxable income. Management periodically evaluates position taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3.19 Goods and Services Tax (GST)

The financial statements have been prepared so that expenses/costs are stated inclusive of GST, where appropriate. The Group is not a registered person in term of the Goods and Services Tax Act 1985 in New Zealand.

3.20 Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) fees and commission income, when the services have been rendered;
- (ii) management fees income, when the services have been rendered; and
- (iii) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

3.21 Cash dealing income

Unleveraged cash dealing services are provided to corporate clients, in particular, those clients engaged in money changing business for the purpose of hedging their cash positions and meeting settlement obligations. The Group is rewarded by the spread between the price quoted to our clients and the price offered by our market makers. Cash dealing income is recognised when cash dealing transactions have been completed by market makers with reference to prevailing exchange rate.

3.22 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), including upfront payment made for leasehold land, are charged to the profit or loss on a straight-line basis over the period of the lease. The Group's interests in leasehold land are also accounted for as operating leases. The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in finance lease obligation. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance costs is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

4 FINANCIAL RISK MANAGEMENT

Risk is inherent in the financial service business and sound risk management is a cornerstone of prudent and successful financial practice. The Group acknowledges that a balance must be achieved between risks, control and business growth. The principal financial risks inherent in the Group's business are credit risk, market risk (including interest rate risk and foreign currency risk) and liquidity risk. The Group's overall risk management objective is to enhance shareholder value while retaining exposure within acceptable thresholds in response to changes in markets. The Group has a robust risk management system in place to identify, analyse, assess and manage risks.

The Group's risk management is carried out by the Group Risk Department under policies approved by the Group Risk Committee. The Group Risk Department provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating credit risk, market risk, liquidity risk, capital management risk and risk limits setting and monitoring.

The policies for managing each of these risks are summarised below:

4.1 Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is exposed to credit risk from accounts receivable from customers and counterparties, bank balances, and other assets and receivables. After evaluating the client's risk profiles, the Group sets stop-out levels to the clients. Once their equity drops to the stop-out level the Group's trading system will automatically liquidate the client's positions. Without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk is the carrying amounts of these assets. The existing debtors have no defaults in the past.

The Group's bank deposits are held with banks and balances due from agents are held with major financial institutions and management reviews the banks and financial institutions' creditworthiness on a regular basis. The banks and financial institutions are of high credit quality and substantially with a rating of grade A or with long established relationships. The credit risk associated with these balances is deemed insignificant.

The Group is also subject to credit risk relating to other assets and receivables from ultimate holding company and fellow subsidiaries. The credit risk relating to other assets and receivables from ultimate holding company and fellow subsidiaries is treated as any other receivables in the normal course of business. The utilisation of credit limits has been closely monitored on a daily basis, taking into account the financial position and past experience. The Group did not experience any losses from non-performance by these counterparties. The credit risk associated with these balances is considered as low.

(a) *Maximum exposure to credit risk before collateral held or other credit enhancements*

The Group's maximum exposure to credit risk in the event the counterparties fail to perform their obligations as at the balance sheet date, in relation to each class of financial assets, is the carrying amount of those assets as indicated in the balance sheet. These amounts represent the worst case scenario of credit risk exposure to the Group at 31 December 2011 and 2012, without taking into account any collateral held or other credit enhancements attached.

The carrying values of receivables and other assets arising from the course of business of the Group are as follows:

The Group	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Other assets	3,529	3,096
Amounts due from ultimate holding company	14,668	–
Amounts due from fellow subsidiaries	3,447	201
Derivative financial instruments	46,259	36,571
Balances due from agents	10,626	14,037
Cash and bank balances and client trust bank balances	309,251	340,132
	<u>387,780</u>	<u>394,037</u>

(b) As at 31 December 2011 and 2012, the maximum exposure of credit risk of the Company comprises the carrying amounts of amounts due from ultimate holding company, amounts due from subsidiaries and cash and bank balances on the balance sheets of the Company.

- (c) None of the financial assets is either past due or impaired.
- (d) The following table breaks down the Group's major credit exposure at their carrying amounts, as categorised by geographical region as of 31 December 2011 and 2012. The Group has allocated exposures to regions based on the country of domicile of its counterparties. Credit risk exposure by geographical sectors is classified according to the location of counterparties after taking into account the transfer of risk.

The Group

As at 31 December 2011

	Hong Kong <i>HK\$'000</i>	Asia Pacific excluding Hong Kong <i>HK\$'000</i>	Europe and other regions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Other assets	2,298	1,231	–	3,529
Amounts due from ultimate holding company	–	14,668	–	14,668
Amounts due from fellow subsidiaries	1,216	2,167	64	3,447
Derivative financial instruments	–	46,259	–	46,259
Balances due from agents	–	10,626	–	10,626
Cash and bank balances and client trust bank balances	<u>58,912</u>	<u>181,436</u>	<u>68,903</u>	<u>309,251</u>
Total	<u>62,426</u>	<u>256,387</u>	<u>68,967</u>	<u>387,780</u>

The Group

As at 31 December 2012

	Hong Kong <i>HK\$'000</i>	Asia Pacific excluding Hong Kong <i>HK\$'000</i>	Europe and other regions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Other assets	2,468	628	–	3,096
Amounts due from fellow subsidiaries	23	156	22	201
Derivative financial instruments	–	36,571	–	36,571
Balances due from agents	–	14,037	–	14,037
Cash and bank balances and client trust bank balances	<u>134,816</u>	<u>134,152</u>	<u>71,164</u>	<u>340,132</u>
Total	<u>137,307</u>	<u>185,544</u>	<u>71,186</u>	<u>394,037</u>

As at 31 December 2011 and 2012, the Company's major credit exposure is within Hong Kong region, except for the amounts due from ultimate holding company.

4.2 Market risk

4.2.1 Interest rate risk

Interest rate risk arises from movements in interest rates and the mismatch of fixed and floating rates between funding and investing activities. The Group is exposed to material interest rate risk as the Group invests all surplus funds in call accounts with reputable banks and is susceptible to movements in call interest rates. Interest rate risk arises from unexpected changes in interest rates that may result in an adverse impact on the Group's current and near future performance. The Group has not used any interest rate swaps nor forward interest rate contracts to hedge its exposure to interest rate risk.

The Group

As at 31 December 2011

	Floating interest rate	Fixed interest rate	Non- interest bearing	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets				
Other assets	–	–	3,529	3,529
Amounts due from ultimate holding company	–	–	14,668	14,668
Amounts due from fellow subsidiaries	–	–	3,447	3,447
Derivative financial instruments	–	–	46,259	46,259
Balances due from agents	3,300	–	7,326	10,626
Cash and bank balances and client trust bank balances	225,252	32,374	51,625	309,251
Liabilities				
Finance lease obligation	–	428	–	428
Other payables	–	–	16,191	16,191
Amounts due to fellow subsidiaries	–	–	1,129	1,129
Derivative financial instruments	–	–	4,181	4,181
Clients' balances	–	–	163,095	163,095
Balances due to banks	14,172	–	–	14,172

The Group

As at 31 December 2012

	Floating interest rate HK\$'000	Fixed interest rate HK\$'000	Non- interest bearing HK\$'000	Total HK\$'000
Assets				
Other assets	–	–	3,096	3,096
Amounts due from ultimate holding company	–	–	–	–
Amounts due from fellow subsidiaries	–	–	201	201
Derivative financial instruments	–	–	36,571	36,571
Balances due from agents	4,754	–	9,283	14,037
Cash and bank balances and client trust bank balances	262,397	21,082	56,653	340,132
Liabilities				
Finance lease obligation	–	348	–	348
Other payables	–	–	14,735	14,735
Amounts due to ultimate holding company	–	–	3,683	3,683
Amounts due to fellow subsidiaries	–	–	698	698
Derivative financial instruments	–	–	7,178	7,178
Clients' balances	–	–	147,590	147,590

Based on the simulations performed and with other variables held constant, the profit before taxation for the year ended 31 December 2011 would increase/decrease by approximately HK\$2,144,000 should the interest rate increase/decrease by 1%; whilst the profit before taxation for the year ended 31 December 2012 would increase/decrease by approximately HK\$2,672,000 should the interest rate increase/decrease by 1%.

4.2.2 Foreign currency risk

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

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 31 December 2011 and 2012. Included in the tables are the assets and liabilities at carrying amounts in HK\$ equivalent, categorised by the original currency.

As at 31 December 2011

	HK\$	NZD	AUD	USD	JPY	Others	Total
	HK\$'000						
The Group							
Assets							
Other assets	2,281	383	88	435	–	342	3,529
Amounts due from ultimate holding company	–	–	–	14,668	–	–	14,668
Amounts due from fellow subsidiaries	–	–	–	3,447	–	–	3,447
Derivative financial instruments	–	6,440	15,375	24,444	–	–	46,259
Balances due from agents	–	–	1,153	8,898	–	575	10,626
Cash and bank balances and client trust bank balances	24,290	20,904	20,122	239,241	1,603	3,091	309,251
Liabilities							
Finance lease obligation	–	–	428	–	–	–	428
Other payables	8,791	1,369	553	5,281	197	–	16,191
Amounts due to fellow subsidiaries	–	–	–	1,129	–	–	1,129
Derivative financial instruments	–	1,886	329	1,966	–	–	4,181
Clients' balances	–	18,804	24,015	120,276	–	–	163,095
Balances due to banks	–	13,341	–	3	828	–	14,172

As at 31 December 2012

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

The following table indicates the impact on the Group's profit before taxation to movements in foreign exchange rate as at 31 December 2011 and 2012:

Foreign currency risk	Movement in foreign currency	31 December 2011	31 December 2012
		HK\$'000	HK\$'000
AUD	+/-5%	+/-571	+/-978
JPY	+/-5%	+/-29	+/-116
NZD	+/-5%	-/+384	+/-841
USD	+/-1%	+/-1,625	+/-723

4.3 Liquidity risk

The Group's operations are subject to various statutory liquidity requirements as prescribed by the relevant authorities. The Group has put in place a monitoring system to ensure that it maintains adequate liquid capital to fund its business commitments and to comply with the regulatory requirements. The liquidity risk of the Group is managed by regularly monitoring current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and current working capital to meet its liquidity requirements in the short and longer term. The Group holds sufficient cash and deposits on demand to repay its liabilities.

4.3.1 Undiscounted cash flows by contractual maturities

The table below presents the cash flows payable by the Group under financial liabilities by remaining contractual maturities as at 31 December 2011 and 2012. The amounts disclosed in the table are the contractual undiscounted cash flows.

As at 31 December 2011

	Up to 1 month	1-3 months	3-12 months	1-5 Years	Over 5 years	Indefinite	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group Liabilities							
Finance lease obligation	10	19	87	384	-	-	500
Other payables	13,794	76	2,321	-	-	-	16,191
Amounts due to fellow subsidiaries	1,129	-	-	-	-	-	1,129
Clients' balances	163,095	-	-	-	-	-	163,095
Balances due to banks	14,172	-	-	-	-	-	14,172
	192,200	95	2,408	384	-	-	195,087
Derivative financial instruments	3,563	589	29	-	-	-	4,181
	<u>195,763</u>	<u>684</u>	<u>2,437</u>	<u>384</u>	<u>-</u>	<u>-</u>	<u>199,268</u>

As at 31 December 2012

	Up to 1 month HK\$'000	1-3 months HK\$'000	3-12 months HK\$'000	1-5 Years HK\$'000	Over 5 years HK\$'000	Indefinite HK\$'000	Total HK\$'000
The Group							
Liabilities							
Finance lease obligation	10	20	71	289	-	-	390
Other payables	7,228	1,814	5,693	-	-	-	14,735
Amounts due to fellow subsidiaries	698	-	-	-	-	-	698
Amounts due to ultimate holding company	3,683	-	-	-	-	-	3,683
Clients' balances	147,590	-	-	-	-	-	147,590
	159,209	1,834	5,764	289	-	-	167,096
Derivative financial instruments	7,178	-	-	-	-	-	7,178
	<u>166,387</u>	<u>1,834</u>	<u>5,764</u>	<u>289</u>	<u>-</u>	<u>-</u>	<u>174,274</u>

4.4 Fair value of financial assets and liabilities**4.4.1 Financial instruments not measured at fair value**

At the balance sheet date, the fair value of the Group's financial assets and liabilities not measured at fair value are not materially different from their carrying amounts due to their short maturities.

4.4.2 Financial instruments measured at fair value

The following table represents the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in HKFRS 7 Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets.

Level 2: fair values measured using quoted price in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.

Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

As at 31 December 2011

	Level 1 <i>HK\$'000</i>	Level 2 <i>HK\$'000</i>	Level 3 <i>HK\$'000</i>	Total <i>HK\$'000</i>
Assets				
Derivative financial instruments	–	46,259	–	46,259
Liabilities				
Derivative financial instruments	–	4,181	–	4,181

As at 31 December 2012

	Level 1 <i>HK\$'000</i>	Level 2 <i>HK\$'000</i>	Level 3 <i>HK\$'000</i>	Total <i>HK\$'000</i>
Assets				
Derivative financial instruments	–	36,571	–	36,571
Liabilities				
Derivative financial instruments	–	7,178	–	7,178

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of the reporting period, with the resulting value discounted back to present value.

There have been no significant transfers between level 1, level 2 and level 3 for the year ended 31 December 2011 and 2012.

4.5 Financial instruments by category

All the financial assets and financial liabilities (including cash and bank balances, client trust bank balances, balance due from/to agents, other assets, amounts due from/to ultimate holding company, amounts due from/to fellow subsidiaries, client balances, balances due to banks, other payables and finance lease obligation) in the consolidated balance sheets are carried at amortised cost using the effective interest method as “loans and receivables” and “other financial liabilities at amortised cost” except for the derivative financial instruments and financial assets at fair value through profit or loss which are carried at fair value.

4.6 Capital management

The Group's objectives when managing capital, which is a broader concept than the "equity" on the face of balance sheet, are:

- To comply with the liquid capital requirements under the Securities and Futures Commission in Hong Kong, Australian Securities and Investments Commission in Australia and the Securities Commission in New Zealand for its subsidiaries which are licensed corporations;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth; and
- To maintain a strong capital base to support the development of its business.

The Group's gearing ratio at the balance sheet date is shown below:

	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Total debt	15,729	4,729
Total equity	<u>186,824</u>	<u>232,752</u>
Gearing ratio	<u>8.4%</u>	<u>2.0%</u>

All licensed corporations within the Group complied with their required liquid capital during the years ended 2011 and 2012.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management of the Group has not come across any significant areas where critical accounting estimates and judgements are to be made.

6 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to Group Executive Team (“GET”). The Group’s operating businesses are structured and managed separately according to the nature of their operations and the services they provide. Each of the Group’s business segments represents a strategic business unit that offers services which are subject to risks and returns that are different from those of the other business segments. GET considers the business from a geographical and product perspective.

Summary details of the business segments are as follows:

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

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties and there was no change in the basis during the Relevant Periods.

The segment information provided to the management for the reportable segments for the years ended 31 December 2011 and 2012 is as follows:

For the year ended 31 December 2011

	New Zealand Margin dealing HK\$'000	Hong Kong Margin dealing HK\$'000	New Zealand Cash dealing HK\$'000	New Zealand Investment sales HK\$'000	New Australia Investment sales HK\$'000	Unallocated HK\$'000	Elimination HK\$'000	Total HK\$'000
Segment revenue and other income:								
Foreign exchange and other trading income earned from external customers	111,120	146	9,805	-	-	(943)	-	120,128
Inter-segment sales	-	20,874	-	4,490	5,925	-	(31,289)	-
Segment revenue	111,120	21,020	9,805	4,490	5,925	(943)	(31,289)	120,128
Other income	14,772	-	1,492	12	273	18,565	-	35,114
Total revenue and other income	<u>125,892</u>	<u>21,020</u>	<u>11,297</u>	<u>4,502</u>	<u>6,198</u>	<u>17,622</u>	(31,289)	<u>155,242</u>
Segment profit/(loss)	51,169	17,452	3,624	(136)	(8,835)	17,622		80,896
Other staff costs								(23,797)
Other unallocated administrative and operating expenses								(6,794)
Profit before tax								50,305
Income tax expense								(14,750)
Profit for the year								<u>35,555</u>
Other segment information:								
Depreciation and amortisation	74	48	55	74	539	1,847	-	2,637
Finance costs	12	-	117	-	-	16	-	145

For the year ended 31 December 2012

	New Zealand Margin dealing HK\$'000	Hong Kong Margin dealing HK\$'000	New Zealand Cash dealing HK\$'000	New Zealand Investment sales HK\$'000	New Australia Investment sales HK\$'000	Unallocated HK\$'000	Elimination HK\$'000	Total HK\$'000
Segment revenue and other income:								
Foreign exchange and other trading income earned from external customers	86,632	120	11,045	-	-	(1,536)	-	96,261
Inter-segment sales	-	24,141	-	2,851	5,862	-	(32,854)	-
Segment revenue	86,632	24,261	11,045	2,851	5,862	(1,536)	(32,854)	96,261
Other income	21,584	-	286	243	399	4,449	-	26,961
Total revenue and other income	<u>108,216</u>	<u>24,261</u>	<u>11,331</u>	<u>3,094</u>	<u>6,261</u>	<u>2,913</u>	(32,854)	<u>123,222</u>
Segment profit/(loss)	15,059	21,793	6,232	(392)	(6,585)	2,913		39,020
Other staff costs								(17,406)
Other unallocated administrative and operating expenses								(19,182)
Profit before tax								2,432
Income tax expense								(4,181)
Loss for the year								<u>(1,749)</u>
Other segment information:								
Depreciation and amortisation	46	31	61	77	573	1,519	-	2,307
Finance costs	<u>30</u>	<u>-</u>	<u>71</u>	<u>-</u>	<u>-</u>	<u>205</u>	<u>-</u>	<u>306</u>

The Company is domiciled in the Hong Kong. The majority of the Group's income from external customers is derived from its operations in New Zealand. The result of its income from external customers in New Zealand and Others is as follows:

	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
New Zealand	119,982	96,141
Others	<u>146</u>	<u>120</u>
	<u><u>120,128</u></u>	<u><u>96,261</u></u>

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

	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Hong Kong	3,578	4,564
New Zealand	699	834
Others	<u>1,425</u>	<u>825</u>
	<u><u>5,702</u></u>	<u><u>6,223</u></u>

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

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

7 OTHER INCOME

	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Provision of management services (<i>Note 27(a)(i)</i>)	12,803	7,916
Fees and commission income	16,270	22,301
Interest income	1,902	1,571
Exchange gain/(losses), net	3,362	(5,343)
Others	<u>777</u>	<u>516</u>
	<u><u>35,114</u></u>	<u><u>26,961</u></u>

8 STAFF COSTS

	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Staff costs (including directors' remuneration (<i>Note 25</i>)): <ul style="list-style-type: none"> Salaries and allowances Pension scheme contributions 	37,884 885 <hr/> 38,769 <hr style="border-top: 3px double black;"/>	28,595 937 <hr/> 29,532 <hr style="border-top: 3px double black;"/>

9 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Management fees paid to ultimate holding company (<i>Note 27(a)(v)</i>)	2,821	2,543
Management fees paid to fellow subsidiaries (<i>Note 27(a)(v)</i>)	306	82
Other office occupation expenses	1,364	1,541
Auditor's remuneration	1,697	2,865
Information services expenses	2,886	3,690
Professional and consultancy fee	16,060	14,287
Repair and maintenance (including system maintenance)	442	623
Marketing, advertising and promotion expenses	1,857	2,511
Travelling expenses	2,556	2,033
Entertainment expenses	944	1,030
Others	3,970	2,859
Expenses recharged to ultimate holding company (<i>Note 27(a)(vi)</i>)	(12,669)	–
	<hr/> 22,234 <hr style="border-top: 3px double black;"/>	<hr/> 34,064 <hr style="border-top: 3px double black;"/>

10 INCOME TAX EXPENSE

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

	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Current tax: <ul style="list-style-type: none"> Charge for the year Over-provision in prior year 	15,195 (411) <hr/> (34)	4,293 (371) <hr/> 259
Deferred tax: <ul style="list-style-type: none"> (Credit)/charge for the year 	<hr/> 14,750 <hr style="border-top: 3px double black;"/>	<hr/> 4,181 <hr style="border-top: 3px double black;"/>
Income tax expense	<hr/> 14,750 <hr style="border-top: 3px double black;"/>	<hr/> 4,181 <hr style="border-top: 3px double black;"/>

	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Profit before income tax	50,305	2,432
Tax at the Hong Kong statutory tax rate	8,300	401
Effect of different taxation rates in other countries	4,891	665
Income not subject to tax	(2,127)	(9,007)
Expenses not deductible for tax	2,556	11,487
Utilisation of previously unrecognised tax losses	(45)	–
Temporary differences not recognised	(34)	433
Effect of change in tax rate	14	–
Over-provision in prior year	(411)	(371)
Tax losses transferred to a fellow subsidiary	1,785	573
Others	(179)	–
Income tax expense	<u>14,750</u>	<u>4,181</u>

A subsidiary of the Group had applied for group tax relief in accordance with the New Zealand Income Tax Act 2004 for the sharing of losses between companies under the same controlling shareholder. The loss-making company can elect to offset its net taxable loss incurred against the net taxable income of the elected profit-making company or the total net taxable income of all the elected profit-making companies.

A subsidiary of the Group had implemented the tax consolidation legislation in Australia, and was under the same tax consolidation group with the fellow subsidiaries in the same tax jurisdiction. The tax consolidated group lodged a single income tax return on behalf of all entities under the tax consolidated group as a whole. The tax consolidation group was dissolved since 1 May 2012.

11 DIVIDENDS

Dividend of HK\$18,130,000 was declared in 2010 and paid to the then shareholder of a subsidiary in 2011. Dividends of HK\$30,348,000 in respect of the year ended 31 December 2011 were declared as at 31 December 2011 to the then shareholders of the underlying subsidiaries. Amounts of HK\$23,348,000 and HK\$7,000,000 were paid in years 2011 and 2012 respectively.

During the year ended 31 December 2012, dividends of HK\$14,000,000 in respect of the year ended 31 December 2012 were declared and paid by the Company to the then shareholders.

12 EARNINGS/(LOSS) PER SHARE

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

	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Profit/(Loss) attributable to equity holders of the Company	35,555	(1,749)
Weighted average number of ordinary shares deemed to be in issue	<u>9,052,898</u>	<u>9,642,896</u>
Basic earnings/(loss) per share (HK\$)	<u><u>3.93</u></u>	<u><u>(0.18)</u></u>

The Company did not have any potential ordinary shares outstanding during the Relevant Periods. Diluted earnings/(loss) per share is therefore equal to basic earnings/(loss) per share. The basic and diluted earnings/(loss) per share as presented on the consolidated statements of comprehensive income have not taken into account the proposed capitalisation issue as described in Note 29.

13 PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2011					
Cost	6,785	7,903	4,691	1,692	21,071
Accumulated depreciation	<u>(5,719)</u>	<u>(7,441)</u>	<u>(3,276)</u>	<u>(1,380)</u>	<u>(17,816)</u>
Net carrying amount	<u><u>1,066</u></u>	<u><u>462</u></u>	<u><u>1,415</u></u>	<u><u>312</u></u>	<u><u>3,255</u></u>
For the year ended 31 December 2011					
Opening net carrying amount	1,066	462	1,415	312	3,255
Exchange adjustments	4	4	9	6	23
Additions	969	563	3,039	299	4,870
Disposals	(23)	–	(5)	–	(28)
Depreciation	<u>(679)</u>	<u>(387)</u>	<u>(1,224)</u>	<u>(245)</u>	<u>(2,535)</u>
Closing net carrying amount	<u><u>1,337</u></u>	<u><u>642</u></u>	<u><u>3,234</u></u>	<u><u>372</u></u>	<u><u>5,585</u></u>
As at 31 December 2011					
Cost	7,596	8,441	7,710	1,584	25,331
Accumulated depreciation	<u>(6,259)</u>	<u>(7,799)</u>	<u>(4,476)</u>	<u>(1,212)</u>	<u>(19,746)</u>
Net carrying amount	<u><u>1,337</u></u>	<u><u>642</u></u>	<u><u>3,234</u></u>	<u><u>372</u></u>	<u><u>5,585</u></u>
For the year ended 31 December 2012					
Opening net carrying amount	1,337	642	3,234	372	5,585
Exchange adjustments	25	10	17	6	58
Additions	457	500	757	764	2,478
Disposals	–	–	–	–	–
Depreciation	<u>(509)</u>	<u>(385)</u>	<u>(1,108)</u>	<u>(225)</u>	<u>(2,227)</u>
Closing net carrying amount	<u><u>1,310</u></u>	<u><u>767</u></u>	<u><u>2,900</u></u>	<u><u>917</u></u>	<u><u>5,894</u></u>
As at 31 December 2012					
Cost	8,285	9,065	8,631	2,420	28,401
Accumulated depreciation	<u>(6,975)</u>	<u>(8,298)</u>	<u>(5,731)</u>	<u>(1,503)</u>	<u>(22,507)</u>
Net carrying amount	<u><u>1,310</u></u>	<u><u>767</u></u>	<u><u>2,900</u></u>	<u><u>917</u></u>	<u><u>5,894</u></u>

14 INTANGIBLE ASSETS

	Computer software HK\$'000
As at 1 January 2011	
Cost	6,009
Accumulated amortisation	<u>(5,916)</u>
Net carrying amount	<u><u>93</u></u>
For the year ended 31 December 2011	
Opening net carrying amount	93
Exchange adjustments	(1)
Addition	127
Amortisation	<u>(102)</u>
Closing net carrying amount	<u><u>117</u></u>
As at 31 December 2011	
Cost	6,115
Accumulated amortisation	<u>(5,998)</u>
Net carrying amount	<u><u>117</u></u>
For the year ended 31 December 2012	
Opening net carrying amount	117
Exchange adjustments	2
Addition	290
Amortisation	<u>(80)</u>
Closing net carrying amount	<u><u>329</u></u>
As at 31 December 2012	
Cost	6,636
Accumulated amortisation	<u>(6,307)</u>
Net carrying amount	<u><u>329</u></u>

15 OTHER ASSETS AND PREPAYMENTS

	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Rental, utility and other receivables	3,426	3,052
Prepayments	2,886	5,566
Others	103	44
	<u> </u>	<u> </u>
Total	<u> 6,415</u>	<u> 8,662</u>

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

16 DERIVATIVE FINANCIAL INSTRUMENTS

	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Current assets		
Derivative foreign exchange contracts	46,259	36,571
Current liabilities		
Derivative foreign exchange contracts	(4,181)	(7,178)
	<u> </u>	<u> </u>
Total	<u> 42,078</u>	<u> 29,393</u>

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

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2011 and 2012 are HK\$2,161,206,000 and HK\$1,892,205,000 respectively.

17 BALANCES DUE FROM AGENTS

	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Balances due from:		
– securities agents	10,626	14,037
	<u> </u>	<u> </u>

The carrying amounts of the Group's balances due from agents approximate to their fair values. The balances due from agents are current in nature and ageing within 30 days.

18 CASH AND BANK BALANCES, CLIENT TRUST BANK BALANCES AND BALANCES DUE TO BANKS

	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Cash and bank balances	185,949	243,493
Fixed deposits with banks	32,373	24,948
Client trust bank balances	<u>90,929</u>	<u>71,691</u>
	309,251	340,132
Balances due to banks	<u>(14,172)</u>	<u>–</u>
	<u><u>295,079</u></u>	<u><u>340,132</u></u>

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

As at 31 December 2011 and 2012, certain fixed deposits with bank amounting to approximately HK\$26,098,000 and HK\$19,791,000 respectively are pledged deposits of the Group. Included in these bank balances, HK\$15,000,000 and HK\$5,849,000 are collateral deposits by the Group placed with market makers as at 31 December 2011 and 2012 respectively. No overdraft facility was utilised by the Group as at 31 December 2011 and 2012.

For the purposes of the consolidated cash flow statements, cash and cash equivalents comprises of the following:

	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Cash and bank balances	185,949	243,493
Fixed deposits with bank with original maturity within three months	6,275	5,157
Balances due to banks	<u>(14,172)</u>	<u>–</u>
	<u><u>178,052</u></u>	<u><u>248,650</u></u>

19 FINANCE LEASE OBLIGATIONS

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

	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Gross finance lease liabilities – minimum lease payments		
Not later than 1 year	165	173
Later than 1 year and no later than 5 years	<u>335</u>	<u>217</u>
	500	390
Future finance charges on finance leases	<u>(72)</u>	<u>(42)</u>
Present value of finance lease liabilities	<u><u>428</u></u>	<u><u>348</u></u>

The present value of finance lease liabilities is as follows:

	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Not later than 1 year	128	151
Later than 1 year and no later than five years	<u>300</u>	<u>197</u>
	<u><u>428</u></u>	<u><u>348</u></u>

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

20 DEFERRED TAXATION

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

	Employee benefits	Depreciation	Other temporary differences	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2011	502	(243)	199	458
Exchange adjustments	–	(2)	2	–
(Charge)/credit for the year	(114)	91	57	34
	<u>388</u>	<u>(154)</u>	<u>258</u>	<u>492</u>
At 31 December 2011	<u>388</u>	<u>(154)</u>	<u>258</u>	<u>492</u>
At 1 January 2012	388	(154)	258	492
Exchange adjustments	17	(2)	8	23
(Charge)/credit for the year	(296)	(26)	63	(259)
	<u>109</u>	<u>(182)</u>	<u>329</u>	<u>256</u>
At 31 December 2012	<u>109</u>	<u>(182)</u>	<u>329</u>	<u>256</u>

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

	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred tax assets	667	438
Deferred tax liabilities	(175)	(182)
	<u>492</u>	<u>256</u>

Deferred tax assets have not been recognised for the following:

	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unused tax losses	–	–
Deductible temporary difference	48	–
	<u>48</u>	<u>–</u>

Deferred tax assets are not recognised as it is not probable that related tax assets will be utilised in the foreseeable future. These losses have no expiry date.

	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Deferred tax assets to be recovered after more than twelve months	667	438
Deferred tax liabilities to be settled after more than twelve months	<u>(175)</u>	<u>(182)</u>
	<u>492</u>	<u>256</u>

21 OTHER PAYABLES AND ACCRUED LIABILITIES

Group	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Accrued rental benefit	1,356	1,002
Accruals	2,144	5,612
Commission payable	5,252	3,139
Employee entitlements	6,211	512
Temporary deposits from clients	–	413
Reinstatement costs	42	–
Other payables	397	4,569
Dividend payable	<u>7,000</u>	<u>–</u>
	<u>22,402</u>	<u>15,247</u>

Company	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Accruals	–	3,332
Other payables	<u>–</u>	<u>3,651</u>
	<u>–</u>	<u>6,983</u>

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

22 CLIENT'S BALANCES

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

23 SHARE CAPITAL

	Number of shares	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2011 and 31 December 2011	<u>1</u>	<u>–</u>	<u>–</u>	<u>–</u>
Issuance of 9,999,999 shares of HK\$0.01 each on 17 May 2012	<u>9,999,999</u>	<u>100</u>	<u>56,991</u>	<u>57,091</u>
At 31 December 2012	<u>10,000,000</u>	<u>100</u>	<u>56,991</u>	<u>57,091</u>

The Company was incorporated on 9 November 2010 with an initial authorised share capital of HK\$10,000 divided into 1,000,000 shares with par value of HK\$0.01 each. On the date of incorporation, 1 ordinary share was issued to Mr Li.

On 17 May 2012, the authorised share capital of the Company was increased from HK\$10,000 divided into 1,000,000 shares of HK\$0.01 each to HK\$1,000,000 divided into 100,000,000 shares of HK\$0.01 each. On the same date, the Company issued 9,054,399 shares at par, and 945,600 shares for a consideration of HK\$57,000,000. The ordinary shares issued have the same rights as the other shares in issue.

On 18 December 2012, the authorised share capital of the Company was further increased to HK\$40,000,000 divided into 4,000,000,000 shares by the creation of an additional 3,900,000,000 shares, each ranking pari passu in all aspect with the existing issued shares.

24 CAPITAL RESERVE

The balance represents the difference between the book value of the net assets of KVB NZ, KVB AU and KVB HK over the par value of the shares issued by LXL II, LXL III and LXL IV in exchange for these subsidiaries as if the current group structure had been in existence since 1 January 2011.

25 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Emoluments paid/payable to the directors of the Company by the companies comprising the Group during the Relevant Periods.

For the year ended 31 December 2011

Name of director	Director fee HK\$'000	Employer's		Discretionary bonuses HK\$'000	Other benefits HK\$'000	Total HK\$'000
		Salary and other benefits HK\$'000	contribution to pension scheme HK\$'000			
<i>Executive Directors:</i>						
Mr Liu Stefan	155	522	12	1,809	325	2,823
Mr Ng Chee Hung Frederick	97	750	12	188	–	1,047
Mr Gregory Patrick Boland ^(Note)	80	731	15	123	–	949
<i>Non-executive Directors:</i>						
Mr Li	78	–	–	–	–	78
Mr Stephen Gregory McCoy	126	643	12	121	–	902
<i>Independent Non-executive Directors:</i>						
Ms Zhao Guixin	85	–	–	–	–	85
Mr Cornelis Jacobus Keyser	85	–	–	–	–	85
Mr Lin Wenhui	55	–	–	–	–	55
Mr Ba Shusong ^(Note)	85	–	–	–	–	85
	<u>846</u>	<u>2,646</u>	<u>51</u>	<u>2,241</u>	<u>325</u>	<u>6,109</u>

For the year ended 31 December 2012

Name of director	Director fee HK\$'000	Employer's		Discretionary bonuses HK\$'000	Other benefits HK\$'000	Total HK\$'000
		Salary and other benefits HK\$'000	contribution to pension scheme HK\$'000			
<i>Executive Directors:</i>						
Mr Liu Stefan	120	444	14	882	318	1,778
Mr Ng Chee Hung Frederick	120	788	14	–	–	922
Mr Gregory Patrick Boland ^(Note)	–	–	–	–	–	–
<i>Non-executive Directors:</i>						
Mr Li	60	–	–	–	–	60
Mr Stephen Gregory McCoy	60	568	–	–	–	628
<i>Independent Non-executive Directors:</i>						
Ms Zhao Guixin	120	–	–	–	–	120
Mr Cornelis Jacobus Keyser	120	–	–	–	–	120
Mr Lin Wenhui	120	–	–	–	–	120
Mr Ba Shusong ^(Note)	76	–	–	–	–	76
	<u>796</u>	<u>1,800</u>	<u>28</u>	<u>882</u>	<u>318</u>	<u>3,824</u>

Note: Mr Gregory Patrick Boland has tendered his resignation which was effected from 30 August 2011. Mr Ba Shusong has tendered his resignation which was effected from 20 August 2012.

During the Relevant Periods, no directors of the Group waived any emoluments and no emolument was paid to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

(b) Five highest paid individuals

The five highest paid employees during the years ended 31 December 2011 and 2012 included one and two directors respectively, details of whose remuneration are set out in Note 25(a) above. Details of the remuneration of the remaining non-directors, highest paid employees during the years ended 31 December 2011 and 2012 are as follows:

	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Salary and commission	3,569	3,280
Employer's contribution to pension scheme	51	154
Discretionary bonuses	<u>2,695</u>	<u>–</u>
	<u><u>6,315</u></u>	<u><u>3,434</u></u>

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Periods.

The emoluments of the highest-paid individuals of the Group other than the directors fall within the following bands:

	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Emolument bands		
– HK\$0 to HK\$1,000,000	–	1
– HK\$1,000,001 to HK\$1,500,000	1	1
– HK\$1,500,001 to HK\$2,000,000	2	1
– HK\$2,000,001 to HK\$2,500,000	<u>1</u>	<u>–</u>

26 INVESTMENT IN A SUBSIDIARY

The Company

	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Investment in a subsidiary		
Investments, at cost:		
Unlisted shares	<u>1</u>	<u>1</u>

As at the date of the report, the Company had direct and indirect interests in the following subsidiaries:

Company name	Place and date of incorporation	Principal activities and place of operation	Issued share capital	Equity interest held	Statutory auditors	Year of audit
KVB Kunlun New Zealand Limited	New Zealand, 6 September 2001	Provision of leveraged foreign exchange services, New Zealand	NZ\$10,862,083	100% (indirect)	PricewaterhouseCoopers, New Zealand	2011 and 2012
KVB Kunlun Pty Limited	Australia, 26 August 2002	Provision of sales service, Australia	AUS\$1,050,010	100% (indirect)	PricewaterhouseCoopers, New Zealand	2011 and 2012
KVB Kunlun International (HK) Limited	Hong Kong, 3 June 2002	Provision of management services and leveraged foreign exchange trading services, Hong Kong	HK\$100,000,000	100% (indirect)	PricewaterhouseCoopers, Hong Kong	2011 and 2012
LXL Capital I Limited	British Virgin Island, 8 April 2011	Investment holding, British Virgin Island	US\$100	100% (direct)	<i>Note</i>	<i>Note</i>
LXL Capital II Limited	British Virgin Island, 8 April 2011	Investment holding, British Virgin Island	US\$100	100% (indirect)	<i>Note</i>	<i>Note</i>
LXL Capital III Limited	British Virgin Island, 8 April 2011	Investment holding, British Virgin Island	US\$100	100% (indirect)	<i>Note</i>	<i>Note</i>
LXL Capital IV Limited	British Virgin Island, 8 April 2011	Investment holding, British Virgin Island	US\$100	100% (indirect)	<i>Note</i>	<i>Note</i>

Note: No audited financial statements have been prepared as these companies are incorporated in a jurisdiction which does not have any statutory audit requirements.

27 RELATED PARTY TRANSACTIONS

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

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

- (a) The Group and the Company had the following material transactions and balances with related parties during the Relevant Periods.

The Group

	<i>Note</i>	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Transactions			
Management fee income for the provision of group management, information technology, marketing and administration support from:			
– fellow subsidiaries	<i>(i)</i>	12,803	7,916
Interest income on advances to:			
– fellow subsidiaries	<i>(ii)</i>	56	–
Commission income shared from:			
– a fellow subsidiary	<i>(iii)</i>	370	39
Handling fee income from:			
– a fellow subsidiary	<i>(iv)</i>	244	–
Management fee expense for the provision of information technology support, financial system and websites maintenance services, marketing promotion, customer services and reconciliation to:			
– ultimate holding company	<i>(v)</i>	2,821	2,543
– fellow subsidiaries		306	82
Expenses recharged to:			
– ultimate holding company	<i>(vi)</i>	12,669	–
Outstanding balances			
Due from related parties:			
– ultimate holding company	<i>(vii)</i>	14,668	–
– fellow subsidiaries		3,447	201
Other assets and prepayments:			
– travel advances to key management	<i>(viii)</i>	26	814
Due to related parties:			
– fellow subsidiaries	<i>(ix)</i>	1,129	698
– ultimate holding company		–	3,683

The Company

	<i>Note</i>	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Outstanding balances			
Due from related parties:	(vii)		
– subsidiaries		–	23,252
– ultimate holding company		15,317	–
Due to related parties:	(viii)		
– subsidiaries		20,054	9,269

Notes:

- (i) *Management fee income is determined with reference to the cost of provision of group management, information technology, marketing and administration support services plus mark up.*
- (ii) *Interest income is charged with reference to interest prevailing at the market.*
- (iii) *Commission income is charged with reference to the profit sharing arrangement with independent third parties.*
- (iv) *Handling fee income is charged with reference to an agreed operation arrangement with fellow subsidiaries.*
- (v) *Management fee expenses are charged for the provision of information technology support, marketing, customer services and reconciliation, financial system and web sites maintenance services with reference to the costs incurred.*
- (vi) *Due to the passing away of a key shareholder in October 2011, the listing process was delayed and was resumed in June 2012. In view of the fact that some of the preparation work in connection with the listing prior to the resumption of Listing process in June 2012 could not be utilised, expenses in relation to the preparation work are recharged to the ultimate holding company with reference to the amount incurred.*
- (vii) *Amounts due from related parties are unsecured, non-interest bearing and repayable on demand.*
- (viii) *Travel advances to key management are unsecured, non-interest bearing and repayable on demand.*
- (ix) *Amounts due to related parties are unsecured, non-interest bearing and repayable on demand.*

- (b) Key management includes directors (executive & non-executive) and the remuneration of the key management personnel of the Group was as follows:

	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Salary and other benefits	2,646	1,800
Employer's contribution to pension scheme	51	28
Discretionary bonuses	2,241	882
Other benefits	1,171	1,114
	<u>6,109</u>	<u>3,824</u>

28 COMMITMENTS AND CONTINGENCIES

- (a) **Capital commitments**

	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Contracted but not provided for	<u>2,198</u>	<u>915</u>

- (b) **Operating lease commitments**

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

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

	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Within one year	14,357	15,207
One to five years	32,787	22,208
Over five years	509	-
	<u>47,653</u>	<u>37,415</u>

29 SUBSEQUENT EVENTS

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

In addition, pursuant to the written resolution passed by the shareholders on 3 June 2013, conditional on the share premium account of the Company being credited as a result of the issuance of new shares in connection with the Listing, the directors were authorised to allot and issue a total of 1,646,655,000 shares by way of capitalisation of the sum of HK\$16,466,550 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 1,646,655,000 shares for allotment and issue to the shareholders in proportion to their respective shareholdings.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of the companies comprising the Group have been prepared in respect of any period subsequent to 31 December 2012. Except as disclosed in Note 29, no dividend or other distribution had been declared, made or paid by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2012.

Yours faithfully,

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong

The information set forth in this appendix does not form part of the accountant's report from the reporting accountant of our Company, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set forth in Appendix I to this prospectus, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the accountant's report set forth in Appendix I to this prospectus.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of our Group prepared in accordance with Rule 7.31 of the GEM Listing Rules is for illustrative purpose only, and is set out below to illustrate the effect of the Placing on the net tangible assets of our Group attributable to the equity holders of our Company as at 31 December 2012 as if the Placing had taken place on 31 December 2012.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group as at 31 December 2012 or at any future dates following the Placing. It is prepared based on the consolidated net assets of our Group as at 31 December 2012 as set out in the accountant's report of our Group, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the accountant's report.

	Audited consolidated net tangible assets attributable to the equity holders of our Company as at 31 December 2012 ^(Note 1) HK\$'000	Estimated net proceeds of the Placing ^(Note 2) HK\$'000	Unaudited pro forma adjusted net tangible assets attributable to the equity holders of our Company HK\$'000	Unaudited pro forma adjusted net tangible assets per Share ^(Note 3) HK\$
Based on the Placing Price of HK\$0.452 per Placing Share	<u>232,423</u>	<u>139,008</u>	<u>371,431</u>	<u>0.186</u>

Notes:

1. *The audited consolidated net tangible assets attributable to the equity holders of our Company as at 31 December 2012 is extracted from the accountant's report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of our Group attributable to the equity holders of our Company as at 31 December 2012 of approximately HK\$232,752,000 with an adjustment for the intangible assets as at 31 December 2012 of approximately HK\$329,000.*
2. *The estimated net proceeds of the Placing are based on the indicative Placing Price of HK\$0.452 per Placing Share after deduction of the Placing fees and other related expenses payable by our Company.*
3. *The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 2,000,000,000 Shares were in issue assuming that the Capitalisation Issue and the Placing were completed on 31 December 2012 but taking no account of any Share which may be allotted and issued or repurchased by our Company pursuant to the paragraphs headed "General mandate to issue Shares" and "General mandate to repurchase Shares" in the section headed "Share Capital" in this prospectus.*
4. *No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to 31 December 2012.*

The following is the text of a report received from the reporting accountant of our Company, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF KVB KUNLUN FINANCIAL GROUP LIMITED

We report on the unaudited pro forma financial information of KVB Kunlun Financial Group Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) set out on pages II-1 to II-2 under the heading of “Unaudited Pro Forma Adjusted Net Tangible Assets” (the “**Unaudited Pro Forma Financial Information**”) in Appendix II of the Company’s prospectus dated 11 June 2013 (the “**Prospectus**”), in connection with the proposed listing of the shares of the Company by way of placing (the “**Placing**”). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Placing might have affected the relevant financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages II-1 to II-2 of the Prospectus.

Respective Responsibilities of Directors of the Company and the Reporting Accountant

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

It is our responsibility to form an opinion, as required by paragraph 7.31(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the audited consolidated net assets of the Group as at 31 December 2012 with the accountant’s report as set out in Appendix I of the Prospectus, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the adjusted net tangible assets of the Group as at 31 December 2012 or any future date.

Opinion

In our opinion:

- a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the Listing Rules.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 11 June 2013

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum and the Articles and of certain aspects of Cayman Islands company law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 9 November 2010 under the Companies Law. The Memorandum and the Articles comprise its constitution.

1. MEMORANDUM

- (a) The Memorandum states, inter alia, that the liability of members of our Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which our Company is established are unrestricted (including acting as an investment company), and that our Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that our Company is an exempted company that our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.
- (b) Our Company may by special resolution alter the Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES

The Articles were adopted on 18 December 2012. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) *Power to allot and issue Shares and warrants*

Subject to the provisions of the Companies Law, the Memorandum and the Articles and to any special rights conferred on the holders of any Shares or class of Shares, any Share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as our Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as our Board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles), the Memorandum and the Articles, any Share may be issued on terms which, at the option of our Company or the holder thereof, it is liable to be redeemed.

Our Board may issue warrants conferring the right upon the holders thereof to subscribe for any class of Shares or securities in the capital of our Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any Shares or any class of Shares, all unissued Shares shall be at the disposal of our Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no Shares shall be issued at a discount.

Neither our Company nor our Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of Shares, to make, or make available, any such allotment, offer, option or Shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of our Board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of our Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of our subsidiaries. Our Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or the Companies Law to be exercised or done by our Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his/her retirement from office (not being a payment to which our Director is contractually entitled) must be approved by our Company in general meeting.

(iv) Loans and provision of security for loans to our Directors

There are provisions in the Articles prohibiting the making of loans to our Directors.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
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(v) Disclosure of interests in contracts with our Company or any of our subsidiaries

A Director may hold any other office or place of profit with our Company (except that of the auditor of our Company) in conjunction with his/her office of Director for such period and, subject to the Articles, upon such terms as our Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by our Company or any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration, profits or other benefits received by him/her as a director, officer or member of, or from his/her interest in, such other company. Subject as otherwise provided by the Articles, our Board may also cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing our Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his/her office from contracting with our Company, either with regard to his/her tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to our Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his/her knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Company shall declare the nature of his/her interest at the meeting of our Board at which the question of entering into the contract or arrangement is first taken into consideration, if he/she knows his/her interest then exists, or in any other case, at the first meeting of our Board after he/she knows that he/she is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of our Board approving any contract or arrangement or other proposal in which he/she or any of his/her associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his/her associate(s) any security or indemnity in respect of money lent by him/her or any of his/her associates or obligations incurred or undertaken by him/her or any of his/her associates at the request of or for the benefit of our Company or any of our subsidiaries;

- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of our subsidiaries for which our Director or his/her associate(s) has himself/herself assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of Shares or debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase, where our Director or his/her associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which our Director or his/her associate(s) is/are interested in the same manner as other holders of Shares or debentures or other securities of our Company by virtue only of his/her/their interest in Shares or debentures or other securities of our Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his/her associates and employees of our Company or of any of our subsidiaries and does not provide in respect of any Director, or his/her associate(s) as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of our Directors shall from time to time be determined by our Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided among our Directors in such proportions and in such manner as our Board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he/she held office. Our Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any Board meetings, committee meetings or general meetings or separate meetings of any class of Shares or of debentures of our Company or otherwise in connection with the discharge of their duties as Directors.

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Any Director who, by request, goes or resides abroad for any purpose of our Company or who performs services which in the opinion of our Board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as our Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing Director, joint managing Director, deputy managing Director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as our Board may from time to time decide. Such remuneration may be either in addition to or in lieu of his/her remuneration as a Director.

Our Board may establish or concur or join with other companies (being subsidiary companies of our Company or companies with which it is associated in business) in establishing and making contributions out of our Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex Director who may hold or have held any executive office or any office of profit with our Company or any of our subsidiaries) and ex employees of our Company and their dependents or any class or classes of such persons.

Our Board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as our Board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his/her actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one-third of our Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one-third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Our Directors to retire in every year will be those who have been longest in office since their last re election or appointment but as between persons who became or were last re elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

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Our Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on our Board or as an addition to the existing Board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his/her appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing Board shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any Shares by way of qualification.

A Director may be removed by an ordinary resolution of our Company before the expiration of his/her period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him/her and our Company) and may by ordinary resolution appoint another in his/her place. Unless otherwise determined by our Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of Director shall be vacated:

- (aa) if he/she resigns his/her office by notice in writing delivered to our Company at the registered office of our Company for the time being or tendered at a meeting of our Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he/she is absent from meetings of our Board (unless an alternate Director appointed by him/her attends) for 6 consecutive months, and our Board resolves that his/her office is vacated;
- (dd) if he/she becomes bankrupt or has a receiving order made against him/her or suspends payment or compounds with his/her creditors;
- (ee) if he/she is prohibited from being a director by law;
- (ff) if he/she ceases to be a Director by virtue of any provision of law or is removed from office pursuant to the Articles.

Our Board may from time to time appoint one or more of its body to be managing Director, joint managing Director, or deputy managing Director or to hold any other employment or executive office with our Company for such period and upon such terms as our Board may determine and our Board may revoke or terminate any of such appointments. Our Board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as our Board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of

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and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations which may from time to time be imposed on it by our Board.

(viii) Borrowing powers

Our Board may exercise all the powers of our Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of our Company and, subject to the Companies Law, to issue debentures, bonds and other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of our Company.

(ix) Proceedings of our Board

Our Board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and officers

The Companies Law and the Articles provide that our Company is required to maintain at its registered office a register of Directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such Directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by our Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of our Company.

(c) Alteration of capital

Our Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

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- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing Shares;
- (iii) divide its Shares into several classes and without prejudice to any special rights previously conferred on the holders of existing Shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as our Company in general meeting or as our Directors may determine;
- (iv) sub divide its Shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any Share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, or may have such deferred rights or be subject to any such restrictions as compared with the others as our Company has power to attach to unissued or new Shares; or
- (v) cancel any Shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the Shares so cancelled.

Our Company may, subject to the provisions of the Companies Law, reduce its Share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing Shares or classes of Shares

Subject to the Companies Law, all or any of the special rights attached to the Shares or any class of Shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued Shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of Shares held by them shall be a quorum. Every holder of Shares of the class shall be entitled on a poll to one vote for every such Share held by him/her.

The special rights conferred upon the holders of any Shares or class of Shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such Shares, be deemed to be varied by the creation or issue of further Shares ranking *pari passu* therewith.

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(e) Special resolution majority required

Pursuant to the Articles, a special resolution of our Company must be passed by a majority of not less than three fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than 21 clear days and not less than 10 clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the Shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than 21 clear days and less than 10 clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any Shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid Share of which he/she is the holder but so that no amount paid up or credited as paid up on a Share in advance of calls or installments is treated for the foregoing purposes as paid up on the Share. A member entitled to more than one vote need not use all his/her votes or cast all the votes he/she uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

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If a recognised clearing house (or its nominee(s)) is a member of our Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of our Company or at any meeting of any class of members of our Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of Shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the Shares held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where our Company has any knowledge that any Shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of our Company or restricted to voting only for or only against any particular resolution of our Company, any votes cast by or on behalf of such Shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of our Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of adoption of the Articles, unless a longer period would not infringe upon the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by our Board.

(h) Accounts and audit

Our Board shall cause true accounts to be kept of the sums of money received and expended by our Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of our Company and of all other matters required by the Companies Law or necessary to give a true and fair view of our Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as our Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of our Company except as conferred by law or authorised by our Board or our Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before our Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting and at the same time as the

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notice of annual general meeting be sent to every person entitled to receive notices of general meetings of our Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), our Company may send to such persons summarised financial statements derived from our Company's annual accounts and the Directors' report instead provided that any such person may by notice in writing served on our Company, demand that our Company sends to him/her, in addition to summarised financial statements, a complete printed copy of our Company's annual financial statement and the Directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by our Company in general meeting or in such manner as the members may determine.

The financial statements of our Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than 21 clear days and not less than 20 clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub paragraph (e) above) be called by notice of at least 21 clear days and not less than 10 clear business days. All other extraordinary general meetings shall be called by at least 14 clear days and not less than 10 clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition, notice of every general meeting shall be given to all members of our Company other than such as, under the provisions of the Articles or the terms of issue of the Shares they hold, are not entitled to receive such notices from our Company, and also to the auditors for the time being of our Company.

Notwithstanding that a meeting of our Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of our Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the issued Shares giving that right.

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All business shall be deemed special which is transacted at an extraordinary general meeting and also all business shall be deemed special which is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of our Directors and auditors;
- (cc) the election of Directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of our Directors and of the auditors;
- (ff) the granting of any mandate or authority to our Directors to offer, allot, grant options over or otherwise dispose of the unissued Shares representing not more than 20% in nominal value of its existing issued Share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of our Company.

(j) Transfer of Shares

All transfers of Shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as our Board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as our Board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that our Board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the Share until the name of the transferee is entered in the register of members in respect thereof. Our Board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

Our Board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any Share upon the principal register to any branch register or any Share on any branch register to the principal register or any other branch register.

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Unless our Board otherwise agrees, no Shares on the principal register shall be transferred to any branch register nor may Shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of Shares on a branch register, at the relevant registration office and, in the case of Shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

Our Board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any Share (not being a fully paid up Share) to a person of whom it does not approve or any Share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any Share to more than four joint holders or any transfer of any Share (not being a fully paid up Share) on which our Company has a lien.

Our Board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as our Directors may from time to time require is paid to our Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of Share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as our Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his/her behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as our Board may determine and either generally or in respect of any class of Shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

(k) Power for our Company to purchase its own Shares

Our Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and our Board may only exercise this power on behalf of our Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of our Company to own Shares and financial assistance to purchase Shares

There are no provisions in the Articles relating to ownership of Shares by a subsidiary.

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Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, our Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any Shares.

(m) Dividends and other methods of distribution

Subject to the Companies Law, our Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by our Board.

The Articles provide dividends may be declared and paid out of the profits of our Company, realised or unrealised, or from any reserve set aside from profits which our Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any Share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the Shares in respect whereof the dividend is paid but no amount paid up on a Share in advance of calls shall for this purpose be treated as paid up on the Share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the Shares during any portion or portions of the period in respect of which the dividend is paid. Our Directors may deduct from any dividend or other monies payable to any member or in respect of any Shares all sums of money (if any) presently payable by him/her to our Company on account of calls or otherwise.

Whenever our Board or our Company in general meeting has resolved that a dividend be paid or declared on the share capital of our Company, our Board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of Shares credited as fully paid up, provided that our Shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that Shareholders entitled to such dividend will be entitled to elect to receive an allotment of Shares credited as fully paid up in lieu of the whole or such part of the dividend as our Board may think fit. Our Company may also upon the recommendation of our Board by an ordinary resolution resolve in respect of any one particular dividend of our Company that it may be satisfied wholly in the form of an allotment of Shares credited as fully paid up without offering any right to Shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of Shares may be paid by cheque or warrant sent through the post addressed to the holder at his/her registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of our Company in respect of the Shares at his/her address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing

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direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such Shares, and shall be sent at his/her or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to our Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the Shares held by such joint holders.

Whenever our Board or our Company in general meeting has resolved that a dividend be paid or declared our Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by our Board for the benefit of our Company until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by our Board and shall revert to our Company.

No dividend or other monies payable by our Company on or in respect of any Share shall bear interest against our Company.

(n) Proxies

Any member of our Company entitled to attend and vote at a meeting of our Company is entitled to appoint another person as his/her proxy to attend and vote instead of him/her. A member who is the holder of two or more Shares may appoint more than one proxy to represent him/her and vote on his/her behalf at a general meeting of our Company or at a class meeting. A proxy need not be a member of our Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he/she acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he/she acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on Shares and forfeiture of Shares

Subject to the Articles and to the terms of allotment, our Board may from time to time make such calls upon the members in respect of any monies unpaid on the Shares held by them respectively (whether on account of the nominal value of the Shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as our Board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but our Board may waive payment of such

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interest wholly or in part. Our Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any Shares held by him/her, and upon all or any of the monies so advanced our Company may pay interest at such rate (if any) as our Board may decide.

If a member fails to pay any call on the day appointed for payment thereof, our Board may serve not less than 14 clear days' notice on him/her requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non payment at or before the time appointed, the Shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any Share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of our Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited Share and not actually paid before the forfeiture.

A person whose Shares have been forfeited shall cease to be a member in respect of the forfeited Shares but shall, notwithstanding, remain liable to pay to our Company all monies which, at the date of forfeiture, were payable by him/her to our Company in respect of the Shares, together with (if our Board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding 20% per annum as our Board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least 2 hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by our Board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by our Board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

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Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued Shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of our Company or at any relevant general meeting of any class of members of our Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to Shareholders under Cayman law, as summarised in paragraph 3(f) of this appendix.

(s) Procedures on liquidation

A resolution that our Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of Shares (i) if our Company shall be wound up and the assets available for distribution among the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* among such members in proportion to the amount paid up on the Shares held by them respectively and (ii) if our Company shall be wound up and the assets available for distribution among the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the Shares held by them respectively.

If our Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of our Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he/she deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in

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trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any Shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, our Company may sell any of the Shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the Shares in question (being not less than three in total number) for any sum payable in cash to the holder of such Shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, our Company has not during that time received any indication of the existence of the member; and (iii) our Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such Shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to our Company and upon receipt by our Company of such net proceeds, it shall become indebted to the former member of our Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for Shares have been issued by our Company and our Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a Share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a Share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

Our Company was incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman Islands company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, our Company's operations must be conducted mainly outside the Cayman Islands. Our Company is required to file an annual return each year with the Registrar of Companies in the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

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(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles include certain protections for holders of special classes of Shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued Shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those Shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, our Company may give financial assistance to our Directors and employees of our Company, our subsidiaries, our holding company or any subsidiary of such holding company in order that they may buy Shares or shares in any subsidiary or holding company. Further, subject to all applicable laws, our Company may give financial assistance to a trustee for the acquisition of Shares or shares in any such subsidiary or holding company to be held for the benefit of employees of our Company, our subsidiaries, any holding company of our Company or any subsidiary of any such holding company (including our salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purpose of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

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(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction in the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his/her powers and discharging his/her duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill which a reasonably prudent person would exercise in comparable circumstances.

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(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to our Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of our Company.

The undertaking for our Company is for a period of twenty years from 7 December 2010.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our Company levied by the government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

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(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of our Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of our Company. They will, however, have such rights as may be set out in the Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

(n) Winding up

A company may be wound up compulsorily by order of the Court; voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidator; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by

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the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his/her appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he/she is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within 28 days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his/her hands and no future executive action may be carried out without his/her approval.

A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) among them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purpose of laying before it the account and giving an explanation thereof. At least 21 days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his/her view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

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(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman (Cayman) Limited, our Company's special legal counsel on Cayman Islands law, have sent to our Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 9 November 2010. Our Company has established a principal place of business in Hong Kong at Suites 7501 & 7508, 75th Floor, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part XI of the Companies Ordinance on 23 June 2011. Each of Mr. Liu Stefan of Suites 7501 & 7508, 75th Floor, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong and Ms. Cheng Wing Sze of Suites 7501 & 7508, 75th Floor, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong has been appointed an authorised representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong. As our Company was incorporated in the Cayman Islands, it operates subject to the Companies Law and to its constitution which comprises the Memorandum and the Articles. A summary of various provisions of our Company's constitutional documents and the relevant aspects of the Cayman Islands company law is set out in Appendix III to this prospectus.

2. Changes in the authorised and issued share capital of our Company

As at the date of incorporation, our initial authorised share capital was HK\$10,000 divided into 1,000,000 Shares of HK\$0.01 each. On the same day, one Share was allotted and issued, credited as fully paid at par, to Codan Trust Company (Cayman) Limited, the initial subscriber of our Company. On the same day, Codan Trust Company (Cayman) Limited transferred one Share to Mr. Li. Such Share was subsequently transferred from Mr. Li to KVB Holdings on 4 May 2012.

On 17 May 2012, the authorised share capital of our Company was increased from HK\$10,000 divided into 1,000,000 Shares to HK\$1,000,000 divided into 100,000,000 Shares. On the same day, our Company allotted and issued 9,054,399 Shares credited as fully paid to KVB Holdings. KVB Holdings then held 9,054,400 Shares, representing the entire issued share capital of our Company.

On 23 May 2012, pursuant to the subscription agreement dated 17 May 2012 entered into between our Company and the Pre-Listing Investors, our Company allotted and issued 643,008 Shares and 302,592 Shares to Calypso and Silverlake, respectively, representing approximately 6.43% and 3.03% of the issued share capital of our Company.

Pursuant to the resolutions in writing of our Shareholders passed on 18 December 2012, the authorised share capital of our Company was further increased from HK\$1,000,000 to HK\$40,000,000 by the creation of a further 3,900,000,000 Shares.

Save as disclosed herein and in the following paragraph headed "Resolutions in writing of our Shareholders", there has been no alteration in the share capital of our Company since our incorporation.

3. Resolutions in writing of our Shareholders

Pursuant to the resolutions in writing of our Shareholders passed on 18 December 2012:

- (a) our Company approved and adopted the Articles; and
- (b) the authorised share capital of our Company was increased from HK\$1,000,000 to HK\$40,000,000 by the creation of a further 3,900,000,000 Shares.

Pursuant to the resolutions in writing of our Shareholders passed on 3 June 2013:

- (a) conditional on the share premium account of our Company being credited as a result of the Placing, our Directors were authorised to allot and issue a total of 1,646,655,000 Shares by way of capitalisation of the sum of HK\$16,466,550 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 1,646,655,000 Shares in aggregate for allotment and issue to our Shareholder whose name appears on the register of members of our Company at the close of business on 2 June 2013 (or as it may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a Share may be allotted and issued) to its then existing shareholding in our Company;
- (b) conditional upon the same conditions to be satisfied and/or waived as stated in the section headed “Structure of the Placing” in this prospectus:
 - (i) the Placing was approved and our Directors were authorised to allot and issue the Placing Shares;
 - (ii) the rules of the Share Option Scheme, the principal terms of which are summarised in the paragraph headed “Share Option Scheme” in this appendix, were approved and adopted and our Directors were authorised to grant options to subscribe for the Shares thereunder and to allot, issue and deal with the Shares pursuant to the exercise of the options which may be granted under the Share Option Scheme and to take all such steps as may be necessary or desirable to implement the Share Option Scheme;
 - (iii) a general unconditional mandate was granted to our Directors to allot, issue and deal with, otherwise than by way of rights issues, scrip dividend scheme or other similar arrangements in accordance with the Memorandum and the Articles, or under the Capitalisation Issue or the Placing or pursuant to the exercise of the options which may be granted under the Share Option Scheme or a specific authority granted by our Shareholders in general meetings, the Shares with an aggregate nominal amount of not exceeding the sum of (a) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Placing (but prior to the exercise of the options which may be granted under the Share Option Scheme); and (b) the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant

to the authority granted to our Directors referred to in paragraph (iv) below, until the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by any applicable law of the Cayman Islands or the Articles to be held or the variation, revocation or renewal of such mandate by an ordinary resolution of our Shareholders in general meeting, whichever occurs first;

- (iv) a general unconditional mandate (the “**Repurchase Mandate**”) was granted to our Directors to exercise all the powers of our Company to repurchase the Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Placing (but prior to the exercise of the options which may be granted under the Share Option Scheme) until the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by any applicable law of the Cayman Islands or the Articles to be held or the variation, revocation or renewal of such mandate by an ordinary resolution of our Shareholders in general meeting, whichever occurs first; and
- (v) the general unconditional mandate mentioned in paragraph (iii) above was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the Repurchase Mandate provided that such extended amount shall not exceed 10% of the total nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Placing (but prior to the exercise of the options which may be granted under the Share Option Scheme).

4. Reorganisation

The companies comprising our Group underwent the Reorganisation in preparation for the Listing. The Reorganisation involves the following steps:

- (a) On 9 November 2010, our Company was incorporated in the Cayman Islands with an authorised share capital of HK\$10,000 divided into 1,000,000 Shares of HK\$0.01 each. On the same day, our Company allotted and issued one Share, credited as fully paid at par, to Codan Trust Company (Cayman) Limited, and such Share was transferred to Mr. Li on the same day. On 4 May 2012, the one Share held by Mr. Li was transferred to KVB Holdings.

- (b) On 8 April 2011, LXL Capital I was incorporated in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On the same day, 100 shares in the capital of LXL Capital I were allotted and issued, credited as fully paid at par, to our Company.
- (c) On 8 April 2011, LXL Capital II was incorporated in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On the same day, 100 nil paid shares in the capital of LXL Capital II were allotted and issued to LXL Capital I.
- (d) On 8 April 2011, LXL Capital III was incorporated in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On the same day, 100 nil paid shares in the capital of LXL Capital III were allotted and issued to LXL Capital I.
- (e) On 8 April 2011, LXL Capital IV was incorporated in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On the same day, 100 nil paid shares in the capital of LXL Capital IV were allotted and issued to LXL Capital I.
- (f) Pursuant to a sale and purchase agreement dated 4 May 2012, our Company acquired the entire issued share capital of KVB NZ from KVB Holdings, and directed that such shares in the capital of KVB NZ be held by LXL Capital II, for a consideration being the net asset value of KVB NZ as at 31 December 2011 which was satisfied by LXL Capital II crediting 100 nil paid shares in the capital of LXL Capital II allotted and issued to LXL Capital I as fully paid at a premium at the direction of KVB Holdings. Such transfer was properly and legally completed and settled on 4 May 2012. As a result, KVB NZ became a direct wholly owned subsidiary of LXL Capital II and an indirect wholly owned subsidiary of our Company.
- (g) Pursuant to a sale and purchase agreement dated 4 May 2012, our Company acquired the entire issued share capital of KVB AU from KVB Holdings, and directed that such shares in the capital of KVB AU be held by LXL Capital III, for a consideration being the net asset value of KVB AU as at 31 December 2011 which was satisfied by LXL Capital III crediting 100 nil paid shares in the capital of LXL Capital III allotted and issued to LXL Capital I as fully paid at a premium at the direction of KVB Holdings. Such transfer was properly and legally completed and settled on 4 May 2012. As a result, KVB AU became a direct wholly owned subsidiary of LXL Capital III and an indirect wholly owned subsidiary of our Company.

- (h) Pursuant to a sale and purchase agreement dated 4 May 2012, our Company agreed to acquire the entire issued share capital of KVB HK from Mr. Li and Ms. Tsui's Estate and directed that such shares in the capital of KVB HK be held by LXL Capital IV, for a consideration being the net asset value of KVB HK as at 31 December 2011 which was satisfied by LXL Capital IV crediting 100 nil paid shares in the capital of LXL Capital IV allotted and issued to LXL Capital I as fully paid at a premium at the directions of Mr. Li and the Administrators on behalf of Ms. Tsui's Estate. Such transfer was properly and legally completed and settled on 7 May 2012. As a result, KVB HK became a direct wholly owned subsidiary of LXL Capital IV and an indirect wholly owned subsidiary of our Company.
- (i) On 17 May 2012, the authorised share capital of our Company was increased from HK\$10,000 divided into 1,000,000 Shares to HK\$1,000,000 divided into 100,000,000 Shares.
- (j) On 17 May 2012, our Company allotted and issued 9,054,399 Shares credited as fully paid to KVB Holdings. KVB Holdings then held 9,054,400 Shares, representing the entire issued share capital of our Company.
- (k) On 17 May 2012, our Company entered into a subscription agreement with the Pre-Listing Investors, pursuant to which our Company has agreed to issue and the Pre-Listing Investors have agreed to subscribe for 945,600 Shares in aggregate, representing approximately 9.46% of the issued share capital of our Company as at completion of the Pre-Listing Investments, for an aggregate consideration of HK\$57,000,000.
- (l) Pursuant to the resolutions in writing of our Shareholders passed on 18 December 2012, the authorised share capital of our Company was further increased from HK\$1,000,000 to HK\$40,000,000 by the creation of a further 3,900,000,000 Shares.

5. Changes in share capital of our subsidiaries

Subsidiaries of our Company are referred to in the accountant's report, the text of which is set out in Appendix I to this prospectus. The following sets out the changes in the share capital of our subsidiaries during the two years immediately preceding the date of this prospectus:

(a) *LXL Capital II*

Pursuant to a sale and purchase agreement dated 4 May 2012, our Company acquired the entire issued share capital of KVB NZ from KVB Holdings, and directed that such shares in the capital of KVB NZ be held by LXL Capital II, for a consideration being the net asset value of KVB NZ as at 31 December 2011 which was satisfied by LXL Capital II crediting 100 nil paid shares in the capital of LXL Capital II allotted and issued to LXL Capital I as fully paid at a premium at the direction of KVB Holdings.

(b) *LXL Capital III*

Pursuant to a sale and purchase agreement dated 4 May 2012, our Company acquired the entire issued share capital of KVB AU from KVB Holdings, and directed that such shares in the capital of KVB AU be held by LXL Capital III, for a consideration being the net asset value of KVB AU as at 31 December 2011 which was satisfied by LXL Capital III crediting 100 nil paid shares in the capital of LXL Capital III allotted and issued to LXL Capital I as fully paid at a premium at the direction of KVB Holdings.

(c) *LXL Capital IV*

Pursuant to a sale and purchase agreement dated 4 May 2012, our Company agreed to acquire the entire issued share capital of KVB HK from Mr. Li and Ms. Tsui's Estate and directed that such shares in the capital of KVB HK be held by LXL Capital IV, for a consideration being the net asset value of KVB HK as at 31 December 2011 which was satisfied by LXL Capital IV crediting 100 nil paid shares in the capital of LXL Capital IV allotted and issued to LXL Capital I as fully paid at a premium at the directions of Mr. Li and the Administrators on behalf of Ms. Tsui's Estate.

(d) *KVB NZ*

Pursuant to a sale and purchase agreement dated 4 May 2012, our Company acquired the entire issued share capital of KVB NZ from KVB Holdings, and directed that such shares in the capital of KVB NZ be held by LXL Capital II, for a consideration being the net asset value of KVB NZ as at 31 December 2011 which was satisfied by LXL Capital II crediting 100 nil paid shares in the capital of LXL Capital II allotted and issued to LXL Capital I as fully paid at a premium at the direction of KVB Holdings. As a result, KVB NZ became a direct wholly owned subsidiary of LXL Capital II and an indirect wholly owned subsidiary of our Company.

(e) *KVB AU*

Pursuant to a sale and purchase agreement dated 4 May 2012, our Company acquired the entire issued share capital of KVB AU from KVB Holdings, and directed that such shares in the capital of KVB AU be held by LXL Capital III, for a consideration being the net asset value of KVB AU as at 31 December 2011 which was satisfied by LXL Capital III crediting 100 nil paid shares in the capital of LXL Capital III allotted and issued to LXL Capital I as fully paid at a premium at the direction of KVB Holdings. As a result, KVB AU became a direct wholly owned subsidiary of LXL Capital III and an indirect wholly owned subsidiary of our Company.

(f) ***KVB HK***

Pursuant to a sale and purchase agreement dated 4 May 2012, our Company agreed to acquire the entire issued share capital of KVB HK from Mr. Li and Ms. Tsui's Estate and directed that such shares in the capital of KVB HK be held by LXL Capital IV, for a consideration being the net asset value of KVB HK as at 31 December 2011 which was satisfied by LXL Capital IV crediting 100 nil paid shares in the capital of LXL Capital IV allotted and issued to LXL Capital I as fully paid at a premium at the directions of Mr. Li and the Administrators on behalf of Ms. Tsui's Estate. As a result, KVB HK became an indirect wholly owned subsidiary of LXL Capital IV and an indirect wholly owned subsidiary of our Company.

6. Repurchase by our Company of our own securities

This section includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of the Shares.

(a) ***Shareholders' approval***

The GEM Listing Rules provide that all share repurchases on GEM by a company with its primary listing on GEM must be approved in advance by an ordinary resolution, which may be by way of general mandate, or by special resolution in relation to specific transactions. As mentioned in the paragraph headed "Resolutions in writing of our Shareholders" in this appendix, our Directors were granted the Repurchase Mandate on 3 June 2013.

(b) ***Reasons for repurchase***

Our Directors believe that it is in the best interests of our Company and our Shareholders to have general authority from our Shareholders to enable our Directors to repurchase the Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of our Company and our assets and/or our earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) ***Source of funds***

Repurchases must be funded out of funds legally available for the purpose in accordance with the applicable laws, rules and regulations in the Cayman Islands, the Memorandum and the Articles. A listed company is prohibited from repurchasing its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(d) Exercise of the Repurchase Mandate

The exercise in full of the Repurchase Mandate, on the basis of 2,000,000,000 Shares in issue immediately following the Listing, could result in up to 200,000,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account the current working capital position of our Group, our Directors consider that, if the Repurchase Mandate were to be exercised in full, there might be a material adverse impact on the working capital and/or gearing position of our Group (as compared with the position disclosed in this prospectus). However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

(e) General

None of our Directors nor, to the best of their knowledge and having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company or our subsidiaries if the Repurchase Mandate is exercised.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules, the applicable laws, rules and regulations in the Cayman Islands, the Memorandum and the Articles.

No Connected Person of our Company has notified our Company that he/she/it has a present intention to sell the Shares to our Company, or has undertaken not to do so, in the event the Repurchase Mandate is exercised.

If, as a result of a repurchase of securities, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder, or a group of Shareholders acting in concert (within the meaning of the Takeovers Code), could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save for the aforesaid, our Directors are not aware of any consequence which would arise under the Takeovers Code as a consequence of any repurchase made pursuant to the Repurchase Mandate immediately after the Listing.

FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP**1. Summary of material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) the sale and purchase agreement dated 4 May 2012 entered into between our Company, Mr. Li, the Administrators and KVB Holdings in relation to the sale and purchase of the (i) 100,000,000 shares of KVB HK for a consideration of HK\$101,684,437; (ii) 872,083 shares of KVB NZ for a consideration of NZD12,716,614 (equivalent to approximately HK\$79,478,838); and (iii) 1,050,010 shares of KVB AU for a consideration of AUD1,388,047 (equivalent to approximately HK\$11,243,181);
- (b) the subscription agreement dated 17 May 2012 entered into between our Company (as issuer), Calypso and Silverlake (both as subscribers) in relation to the subscription of an aggregate of 945,600 Shares for an aggregate consideration of HK\$57,000,000;
- (c) the shareholders' agreement in relation to our Company dated 23 May 2012 entered into between our Company, KVB Holdings and the Pre-Listing Investors;
- (d) the deed dated 7 September 2012 entered into between our Company and KVB Holdings in relation to the reimbursement of certain Listing expenses by KVB Holdings to our Group;
- (e) the trademark licence agreement dated 18 December 2012 entered into between KVB Holdings as licensor and our Company as licensee regarding the grant of licence to our Group to use nine trademarks (as more particularly described in the paragraph headed "(a) Trademark Licence Agreement" in the section headed "Connected Transactions" in this prospectus) for a consideration of HK\$1.00;
- (f) the Deed of Indemnity;
- (g) the Deed of Non-competition; and
- (h) the Placing Agreement.

2. Intellectual property rights

(a) Trademarks

As at the Latest Practicable Date, our Group had registered the following trademarks which are material to our business:

Trademark	Registered owner	Place of application	Class(s)	Registration number	Expiry date
	Our Company	New Zealand	9	679539	23 May 2020
	Our Company	Australia	9, 36	1124786	20 July 2016
	Our Company	Hong Kong	36	300150065	1 February 2014
	Our Company	US	36	3294082	17 September 2017
	KVB NZ	PRC	36	3582965	20 October 2015

As at the Latest Practicable Date, the following trademarks had been licensed to be used by our Group ^(Note):

Trademark	Registered owner	Licensee	Place of registration	Class(s)	Registration number	Expiry date
KVB KUNLUN	KVB Holdings	Our Group	New Zealand	36	663304	28 August 2019
	KVB Holdings	Our Group	New Zealand	36	663305	28 August 2019
	KVB Holdings	Our Group	Australia	9, 36	1124787	20 July 2016
 KVB Kunlun 昆倫國際	KVB Holdings	Our Group	Australia	36	1408668	14 February 2021
 KVB Kunlun	KVB Holdings	Our Group	Australia	36	1408672	14 February 2021
 KVB Kunlun	KVB Holdings	Our Group	Hong Kong	36	300150056	1 February 2014
 KVB Kunlun 昆倫國際	KVB Holdings	Our Group	PRC	36	3582964	13 August 2015
 KVB Kunlun	KVB Holdings	Our Group	US	36	3279876	13 August 2017
 KVB Kunlun 昆倫國際	KVB Holdings	Our Group	Canada	36	TMA767131	17 May 2025

Note: On 18 December 2012, KVB Holdings and our Company entered into the Trademark Licence Agreement, pursuant to which KVB Holdings has granted our Group a non-exclusive right to use the above nine Licensed Trademarks registered in the name of KVB Holdings in certain jurisdictions in accordance with the terms of the Trademark Licence Agreement. Details of the Trademark Licence Agreement are set out in the section headed “Connected Transactions” in this prospectus.

(b) Domain names

As at the Latest Practicable Date, our Group had registered the following domain names:

Domain name	Registered owner	Expiry date
forexstar.biz	KVB NZ	8 November 2014
forexstar.com	KVB NZ	31 December 2015
forexstar.info	KVB NZ	9 November 2014
forexstar.net	KVB NZ	8 November 2014
forexstar.org	KVB NZ	9 November 2014
kvb.co.nz	KVB NZ	25 September 2014
kvb.net.nz	KVB NZ	25 September 2014
kvb.org.nz	KVB NZ	25 September 2014
kvbfg.com	KVB NZ	22 December 2014
kvbfinance.co	KVB NZ	6 August 2013
kvbfinance.co.nz	KVB NZ	9 December 2014
kvbfx.net	KVB NZ	4 December 2014
kvbkunlun.biz	KVB NZ	23 September 2014
kvbkunlun.co	KVB NZ	6 August 2013
kvbkunlun.co.nz	KVB NZ	24 September 2014
kvbkunlun.info	KVB NZ	25 September 2014
kvbkunlun.net	KVB NZ	24 September 2014
kvbkunlun.net.nz	KVB NZ	24 September 2014
kvbkunlun.org	KVB NZ	24 September 2014
kvbkunlun.org.nz	KVB NZ	24 September 2014
kvblisco.com	KVB NZ	20 July 2014

Domain name	Registered owner	Expiry date
kvblisco.net	KVB NZ	20 July 2014
kvblisco.org	KVB NZ	20 July 2014
kvblistco.com	KVB NZ	26 August 2014
kvblistco.net	KVB NZ	26 August 2014
kvblistco.org	KVB NZ	26 August 2014
kvbsecurities.co.nz	KVB NZ	11 July 2013
kvbtradingstar.com	KVB NZ	13 July 2013
tradingstar.com	KVB NZ	25 September 2014
kvbfinance.com.au	KVB AU	9 December 2014
kvbfx.com.au	KVB AU	4 December 2014
kvbkunlun.com.au	KVB AU	1 November 2014
kvbkunlun.net.au	KVB AU	1 November 2014
kvbsec.com	KVB AU	5 November 2014
kvbsecurities.com.au	KVB AU	11 July 2014
forexstar.com.hk	KVB HK	11 December 2013
kvbkunlun.com.hk	KVB HK	15 October 2013
kvbkunlun.hk	KVB HK	15 December 2014
昆侖國際.com	KVB HK	9 June 2015

FURTHER INFORMATION ABOUT OUR DIRECTORS, MANAGEMENT AND STAFF

1. Particulars of service agreements

Each of our executive Directors has entered into a service agreement with our Company for an initial term of three years commencing from the Listing Date which shall be terminated in accordance with the provisions of the service agreement by either party giving to the other not less than three months' prior notice in writing, subject to the provisions on retirement by rotation as set out in the

Articles. In addition, each of our executive Directors and one of our non-executive Director, namely Mr. Stephen Gregory McCoy, has entered into a service agreement with one of our subsidiaries which is determinable with no less than three months' prior written notice. Details of our Company's remuneration policy are set forth in the paragraph headed "Directors' remuneration" in this appendix.

The aggregate annual remuneration of each of our executive Directors payable by us is set out below:

Executive Directors

Mr. Liu Stefan	HK\$500,400
Mr. Ng Chee Hung Frederick	HK\$922,500

Each of our non-executive Directors and independent non-executive Directors has entered into a letter of appointment with us for an initial term of three years commencing on the Listing Date with the following annual remuneration:

Non-executive Directors

Mr. Li	HK\$60,000
Mr. Stephen Gregory McCoy	HK\$462,900

Independent non-executive Directors

Ms. Zhao Guixin	HK\$120,000
Mr. Cornelis Jacobus Keyser	HK\$120,000
Mr. Lin Wenhui	HK\$120,000

Save as disclosed above, none of our Directors has entered or proposed to enter into any service agreements or letters of appointment with our Company or any member of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

2. Directors' remuneration

- (a) The remuneration policy of our Company will be laid down by the remuneration committee from time to time with reference to factors such as salaries paid by comparable companies, time commitment, and responsibilities and performance of our Directors. Under the current remuneration policy, non-cash benefits may be provided to our Directors under their remuneration package.

- (b) The aggregate of the remuneration paid and benefits in kind granted to our Directors by any member of our Group for the year ended 31 December 2012 was approximately HK\$3.8 million.
- (c) Save as disclosed in the accountant's report in Appendix I to this prospectus, no Directors received any remuneration or benefits in kind from any member of our Group for the financial year ended 31 December 2012.
- (d) We estimate the aggregate remuneration payable to, and benefits in kind received by, our Directors by any member of our Group for the year ending 31 December 2013 under the arrangements in force as at the date of this prospectus to be approximately HK\$2,306,000.

Save as disclosed in this prospectus, no Director in the promotion of our Company has been paid in cash or Shares or otherwise by any person either to induce him/her to become, or to qualify him/her as a Director, or otherwise for services rendered by him/her in connection with the promotion or formation of our Company.

3. Disclosure of interests

Immediately following completion of the Capitalisation Issue and the Placing (without taking into account any Shares which may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme and which would affect disclosure in this paragraph), the interest or short positions of our Directors and the chief executive of our Company in the shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO) once the Shares are listed, or which will be required to be entered in the register kept by our Company pursuant to section 352 of the SFO, or which will be required to be notified to our Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, will be as follows:

Name of Director	Nature of interest	Number of securities ^(Note 1)	Percentage of shareholding
Mr. Li	Interest in controlled corporation	1,500,000,000 ^{(L) (Note 2)}	75.00

Notes:

- The letter "L" denotes the Director's long position in the Shares.*
- These 1,500,000,000 Shares will be held by KVB Holdings on the Listing Date. As Mr. Li is entitled to control over one-third of the voting power at general meetings of KVB Holdings, he is deemed under the SFO to be interested in these 1,500,000,000 Shares to be held by KVB Holdings on the Listing Date.*

SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by resolutions in writing of our Shareholders passed on 3 June 2013. The following summary does not form, nor is intended to be, part of the Share Option Scheme nor should it be taken as affecting the interpretation of the rules of the Share Option Scheme.

(a) Purpose

The purpose of the Share Option Scheme is for our Group to attract, retain and motivate talented Participants (as defined in paragraph (c) below) to strive for future developments and expansion of our Group. The Share Option Scheme shall be an incentive to encourage the Participants to perform their best in achieving the goals of our Group and allow the Participants to enjoy the results of our Group attained through their efforts and contributions.

(b) Conditions

The Share Option Scheme is conditional upon:

- (i) the Listing Division granting approval of the Share Option Scheme and any options which may be granted under the Share Option Scheme, and the listing of, and permission to deal in, the Shares which may be issued upon the exercise of the options;
- (ii) the obligations of the Placing Agents under the Placing Agreement referred to in the paragraph headed “Conditions of the Placing” in the section headed “Structure of the Placing” in this prospectus becoming unconditional (including the waiver of any condition(s)) and not having been terminated in accordance with the terms of the Placing Agreement or otherwise; and
- (iii) the commencement of dealings in the Shares on the Stock Exchange.

(c) Scope of participants and eligibility of Participants

Our Board may, at its discretion, invite:

- (i) any executive or non-executive director including any independent non-executive director or any employee (whether full-time or part-time) of any member of our Group;
- (ii) any trustee of a trust (whether family, discretionary or otherwise) whose beneficiaries or objects include any employee or business associate of our Group;
- (iii) any consultant (in the areas of legal, technical, financial or corporate management) and other adviser to any member of our Group;

- (iv) any provider of goods and/or services to our Group; or
- (v) any other person whom our Board considers, in its sole discretion, has contributed to our Group.

The persons set out in (i) to (v) above are referred to as the “**Participants**”.

In determining the basis of eligibility of each Participant, our Board would take into account such factors as our Board may at its discretion consider appropriate.

(d) Acceptance of offer

Offer of an option shall be deemed to have been accepted by the grantee when the duplicate of the relevant offer letter comprising acceptance of the option duly signed by the grantee together with a remittance in favour of our Company of HK\$1.00 (or such other nominal sum in any currency as our Board may determine) by way of consideration for the grant.

(e) Subscription price

The subscription price for the Shares under the Share Option Scheme shall be a price determined by our Board at its sole discretion and notified to the Participant and shall be no less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date on which an option is granted; (ii) the average closing prices of the Shares as stated in the Stock Exchange’s daily quotation sheets for the five trading days immediately preceding the date on which an option is granted; and (iii) the nominal value of the Share.

(f) Maximum number of Shares available for subscription

- (i) Subject to (iv) below, the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company shall not in aggregate exceed 10% of the total number of Shares in issue immediately upon completion of the Capitalisation Issue and the Placing (i.e. 200,000,000 Shares), unless our Company obtains an approval from our Shareholders pursuant to (ii) below.
- (ii) Subject to (iv) below, our Company may seek approval of our Shareholders in general meeting for refreshing the 10% limit set out in (i) above such that the total number of Shares which may be issued upon the exercise of all the options that may be granted under the Share Option Scheme and any other share option schemes of our Company under the limit as refreshed shall not exceed 10% of the total number of the Shares in issue as at the date of approval to refresh such limit.
- (iii) Subject to (iv) below, our Company may seek separate approval from our Shareholders in general meeting for granting the options beyond the 10% limit provided that the options granted in excess of such limit are granted only to the Participants specifically identified by our Company before such approval is sought. In such case, our Company shall send a circular to our Shareholders containing the information required under the GEM Listing Rules.

- (iv) Notwithstanding any other provisions of the Share Option Scheme, the maximum number of Shares in respect of which the options may be granted under the Share Option Scheme together with any options outstanding and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company must not exceed 30% (or such higher percentage as may be allowed under the GEM Listing Rules) of the total number of Shares in issue from time to time. No option may be granted under the Share Option Scheme or any other share option schemes of our Company if this will result in such limit being exceeded.

(g) Conditions, restrictions or limitations on offers of options

Unless otherwise determined by our Board and specified in the offer letter at the time of the offer of the option, there are neither any performance targets which need to be achieved by the grantee before an option can be exercised nor any minimum period for which an option must be held before the option can be exercised. Subject to the provisions of the Share Option Scheme and the GEM Listing Rules, our Board may when making the offer of options impose any conditions, restrictions or limitations in relation to the option as it may at its absolute discretion think fit.

(h) Maximum entitlement of Shares of each Participant

- (i) Subject to paragraph (ii) below, the total number of Shares issued and to be issued upon the exercise of the options granted to each Participant (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue.
- (ii) Notwithstanding (i) above, any further grant of options to a Participant in excess of the 1% limit shall be subject to the approval by our Shareholders in general meeting with such Participant and his/her associates abstaining from voting. The number and the terms of the options to be granted to such Participant shall be fixed before our Shareholders' approval and the date of our Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

(i) Grant of options to Connected Persons of our Company

- (i) Any grant of options to a Participant who is a Director, chief executive of our Company or Substantial Shareholder or their respective associates must be approved by our independent non-executive Directors (excluding independent non-executive Director who is a Participant).
- (ii) Where our Board proposes to grant any option to a Participant who is a Substantial Shareholder or an independent non-executive Director, or any of their respective associates and such option which if exercised in full, would result in such Participant becoming entitled to subscribe for such number of Shares, when aggregated with the total number of Shares already issued and issuable to him/her pursuant to all options already granted and to be granted (including options exercised, cancelled and outstanding) to him/her in the 12-month period up to and including the date of such grant:

- (A) representing in aggregate more than 0.1% of the relevant class of securities of our Company in issue on the date of such grant; and
- (B) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5,000,000,

such proposed grant of options must be approved by our Shareholders in general meeting. In such a case, our Company shall send a circular to our Shareholders containing all those terms as required under the GEM Listing Rules. All Connected Persons of our Company must abstain from voting at such general meeting.

(j) Exercise of options

An option may be exercised in accordance with the terms of the Share Option Scheme and such other terms and conditions upon which an option is granted at any time during the option period after the option has been granted by our Board but in any event not later than 10 years from the date of grant. An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the expiry of the option period.

(k) Transferability of options

An option shall be personal to the grantee and shall not be assignable and transferable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interests in favour of any third party over or in relation to any option.

(l) If a grantee ceases to be a Participant by reason other than death or misconduct

If the grantee ceases to be a Participant by any reason other than the grantee's death or the termination of the grantee's employment, directorship, office or appointment on one or more of the grounds specified in paragraph (n) below, the grantee may exercise the option up to his/her entitlement at the date of cessation (to the extent which has become exercisable and not already exercised) within the period of nine months (or such longer period as our Board may determine) following the date of such cessation, which date shall be the last actual working day with the relevant company whether salary is paid in lieu of notice or not, or the last date of office or appointment as director of the relevant company, as the case may be, failing which it shall lapse.

(m) On the death of a grantee

If the grantee dies before exercising the option in full and none of the events which would be a ground for termination of the grantee's employment, directorship, office or appointment under paragraph (n) below arises, the personal representative(s) of the grantee shall be entitled to exercise the option up to the entitlement of such grantee at the date of death (to the extent which has become exercisable and not already exercised) within a period of 12 months or such longer period as our Board may determine from the date of death, failing which it shall lapse.

(n) Termination of employment of a grantee by reason of misconduct

An option shall lapse automatically (to the extent not already exercised) on the date on which the grantee ceases to be a Participant by reason of the termination of his employment, directorship, office or appointment on the grounds that he/she has been guilty of misconduct, or appears either to be unable to pay or have no reasonable prospect to pay debts, or has become insolvent, or has made any arrangements or composition with his/her creditors generally, or has been convicted of any criminal offence involving his/her integrity or honesty or on any grounds on which an employer would be entitled to terminate his/her employment summarily.

(o) Voluntary winding-up of our Company

In the event a notice is given by our Company to our Shareholders to convene a Shareholders' meeting for the purpose of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall forthwith give notice thereof to all grantees. Each grantee (or his/her legal personal representative(s)) may by notice in writing to our Company (such notice to be received by our Company not later than four business days prior to the proposed general meeting) exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice, and our Company shall as soon as possible and, in any event, no later than the third business day immediately prior to the day of the proposed Shareholders' meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise. Subject to the above, an option shall lapse automatically and not be exercisable (to the extent not already exercised) on the expiry of the period referred to above.

(p) General offer by way of take-over

If a general offer by way of take-over is made to all holders of the Shares (or all such holders other than the offeror, any person controlled by the offeror and any person acting in association or in concert with the offeror) and if such offer becomes or is declared unconditional prior to the expiry of the relevant option period, our Company shall forthwith give notice thereof to the grantee and the grantee (or his/her personal representative(s)) may within 21 days of the date of the notice exercise the option (to the extent not already exercised) to its full extent or to the extent specified in such notice. Subject to the above, an option shall lapse automatically and not be exercisable (to the extent not already exercised) on the expiry of the period referred to above.

(q) Rights on a compromise or arrangement

If a compromise or arrangement between our Company and our Shareholders or creditors is proposed for the purpose of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies, the grantee (or his/her personal representative(s)) may by notice in writing to our Company exercise the option and our Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee. Upon such compromise or arrangement becoming effective, all options shall lapse except insofar as previously exercised under the Share Option Scheme.

(r) Rank pari passu

The Shares to be allotted and issued upon the exercise of an option will be subject to the Articles for the time being in force and will rank pari passu with the fully paid Shares in issue as from the date of allotment and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment.

(s) Alteration in capital structure

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable, whether by way of capitalisation issue, rights issue, open offer, consolidation, reclassification, sub-division or reduction in share capital in accordance with the legal requirements and the requirements of the Stock Exchange, such corresponding alterations (if any) shall be made to, among others:

- (i) the number or nominal amount of the Shares subject to the option so far as unexercised; or
- (ii) the subscription price or any combination thereof, as an independent financial adviser or the auditors of our Company shall certify in writing, either generally or as regards any particular grantee, to have, in their opinion, fairly and reasonably satisfied the requirement that any such adjustment shall be in compliance with the GEM Listing Rules and such applicable guidance and/or interpretation of the GEM Listing Rules issued by the Stock Exchange from time to time but no such adjustments shall be made to the extent that a Share would be issued at less than its nominal value.

(t) Duration of the Share Option Scheme

The Share Option Scheme will remain valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme is adopted, after which period no further options shall be granted but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme, and options which are granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

(u) Cancellation of options granted

Our Board may at any time at its absolute discretion cancel any option granted but not exercised. Where our Company cancels options and makes an offer of the grant of new options to the same option holder, the offer of the grant of such new options may only be made under the Share Option Scheme with available options (to the extent not yet granted and excluding the cancelled options) within the limit approved by our Shareholders as mentioned in paragraph (f) above. An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the date on which the option is cancelled by our Board as provided above.

(v) Termination of the Share Option Scheme

Our Company may by resolution in general meeting or our Board may at any time terminate the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provision of the Share Option Scheme. Option granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(w) Alteration of provisions of the Share Option Scheme

The provisions of the Share Option Scheme may be altered in any respect by resolution of our Board except that provisions relating to the class of persons eligible for the grant of options, the option period and all such other matters set out in Rule 23.03 of the GEM Listing Rules cannot be altered to the advantage of the Participants without the prior approval of our Shareholders in general meeting.

Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of the options granted must be approved by the Stock Exchange and our Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme. The amended terms of the Share Option Scheme or the options must still comply with the relevant requirements of Chapter 23 of the GEM Listing Rules. Any change to the authority of our Directors or scheme administrators in relation to any alteration to the terms of the Share Option Scheme must be approved by our Shareholders in general meeting.

(x) Restrictions on the time of grant of options

No offer shall be made after inside information has come to the knowledge of our Company, until such inside information has been published pursuant to the requirements of the GEM Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the meeting of our Board for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the GEM Listing Rules); and (ii) the deadline for our Company to publish announcement for our results for any year, half-year, quarterly or any other interim period (whether or not required under the GEM Listing Rules) and ending on the date of the results announcement, no option shall be granted.

The Share Option Scheme complies with Chapter 23 of the GEM Listing Rules. As at the date of this prospectus, no option had been granted or agreed to be granted under the Share Option Scheme. On the assumption that 2,000,000,000 Shares are in issue on the date of commencement of dealings in the Shares on the Stock Exchange, the application to the Listing Division for the listing of, and permission to deal in, the Shares on the Stock Exchange includes the 200,000,000 Shares which may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme.

OTHER INFORMATION**1. Estate duty and tax indemnity**

For details of the estate duty and tax indemnity provided by the Indemnifiers, please refer to the section headed “Relationship with Controlling Shareholders” in this prospectus.

2. 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.

3. Sponsor

The Sponsor has made an application on behalf of our Company to the Listing Division for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the Capitalisation Issue and the Placing and upon the exercise of the options that may be granted under the Share Option Scheme).

4. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately US\$5,400 and are payable by our Company.

5. Promotor

Our Company has no promotor for the purpose of the GEM Listing Rules.

6. Qualifications and consents of experts

The qualifications of the experts who have given opinions or whose names are referred to in this prospectus are as follows:

Name	Qualification
Quam Capital Limited	Licensed corporation under the SFO permitted to carry out type 6 (advising on corporate finance) regulated activity
PricewaterhouseCoopers	Certified Public Accountants
Deacons	Legal advisers as to Hong Kong law

Kensington Swan Lawyers	Legal advisers as to New Zealand law
Block Legal & Compliance	Legal advisers as to Australian law
Conyers Dill & Pearman (Cayman) Limited	Cayman Islands attorneys-at-law
Conyers Dill & Pearman	Legal advisers as to BVI law

Each of Quam Capital, PricewaterhouseCoopers, Deacons, Kensington Swan Lawyers, Block Legal & Compliance, Conyers Dill & Pearman (Cayman) Limited and Conyers Dill & Pearman has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or the references to its name in the form and context in which they are respectively included.

None of the experts named above has any shareholding interest in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

7. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

8. Disclaimer

Save as disclosed in this prospectus:

- (a) none of our Directors has any interest and short position in the shares, underlying shares and debentures of our Company or any of our associated corporations (within the meaning of Part XV of the SFO) which will be required (i) to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of Part XV of the SFO to be entered in the register referred to therein; or (iii) pursuant to the GEM Listing Rules to be notified to our Company and the Stock Exchange once such securities are listed on the Stock Exchange;
- (b) none of our Directors nor any of the persons whose names are listed in the paragraph headed “Qualifications and consents of experts” in this appendix is interested in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group; and

- (c) none of our Directors nor any of the persons whose names are listed in the paragraph headed “Qualifications and consents of experts” in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group.

9. Miscellaneous

Save as disclosed in this prospectus:

- (a) within the two years preceding the date of this prospectus, no Share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (b) within the two years preceding the date of this prospectus, no Share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (c) our Company has no outstanding convertible debt securities or debentures;
- (d) no founder, management or deferred Shares of our Company or any of our subsidiaries have been issued or agreed to be issued; and
- (e) no commissions, discounts, brokerages or other special terms were granted within the two years preceding the date of this prospectus in connection with the issue or sale of any capital of any member of our Group.

10. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance on the exemption provided under section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were the written consents referred to in the paragraph headed “Qualifications and consents of experts” in Appendix IV to this prospectus and copies of the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix IV to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Deacons at 5th Floor, Alexandra House, 18 Chater Road, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and the Articles;
- (b) the accountant’s report of our Group from PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;
- (c) the audited consolidated financial statements of our Group for the two years ended 31 December 2011 and 31 December 2012;
- (d) the report from PricewaterhouseCoopers relating to the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (e) the letter prepared by Conyers Dill & Pearman (Cayman) Limited summarising certain aspects of the Cayman Islands company law as referred to in Appendix III to this prospectus;
- (f) the Companies Law;
- (g) the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix IV to this prospectus;
- (h) the service agreements referred to in the paragraph headed “Particulars of service agreements” in Appendix IV to this prospectus;
- (i) the written consents referred to in the paragraph headed “Qualifications and consents of experts” in Appendix IV to this prospectus;
- (j) the legal opinion issued by Deacons, the legal advisers to our Company as to Hong Kong law;
- (k) the legal opinion issued by Kensington Swan Lawyers, the legal advisers to our Company as to New Zealand law;

- (l) the legal opinion issued by Block Legal & Compliance, the legal advisers to our Company as to Australian law;
- (m) the legal opinion issued by Conyers Dill & Pearman, the legal advisers to our Company as to BVI law; and
- (n) the Share Option Scheme.

