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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)

CONTINUING CONNECTED TRANSACTIONS – SUPPLEMENTAL AGREEMENT TO THE INFORMATION TECHNOLOGY SERVICES AGREEMENT AND REVISION OF ANNUAL CAPS

Reference is made to the respective announcements of the Company dated (i) 18 December 2015 in relation to the Software Licence Agreement entered into between the Company and Banclogix; (ii) 19 April 2016 in relation to the Information Technology Services Agreement entered into between the Company and Banclogix, and (iii) 2 June 2016 in relation to the Membership Agreement entered into between KVB ZHHQ and TPME.

On 12 August 2016 (after trading hours), the Company and Banclogix entered into the Supplemental Agreement to the Information Technology Services Agreement. The Supplemental Agreement is conditional upon the approval of Independent Shareholders at the EGM.

In light of the development of the business of the Group during the recent months, including but not limited to (i) the transactions contemplated under the Membership Agreement and (ii) the Company's intended enhancement of its digital marketing strategies, the Board considers that the Existing Aggregate Annual Caps should be revised to cater for additional information technology support to the updated and latest business plan of the Group. As such, the Company proposes amending the Information Technology Services Agreement and revising the Existing Aggregate Annual Caps.

GEM LISTING RULE IMPLICATIONS

As at the date of this announcement, Banclogix is a wholly-owned subsidiary of KVB Holdings which is a substantial shareholder of the Company, and is therefore a connected person of the Company under Chapter 20 of the GEM Listing Rules. Accordingly, the Information Technology Services Agreement as amended by the Supplemental Agreement constitutes a continuing connected transaction of the Company under Chapter 20 of the GEM Listing Rules.

Pursuant to Rule 20.79 of the GEM Listing Rules, the transactions contemplated under the Information Technology Services Agreement as amended by the Supplemental Agreement are required to be aggregated with the transactions under the Software Licence Agreement (which is also a continuing connected transaction with Banclogix) as they were entered into within a 12-month period. As one or more of the applicable percentage ratio(s) (as defined in Rule 19.07 of the GEM Listing Rules) exceeds 5%, the transactions contemplated constitute non-exempt continuing connected transactions of the Company and are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

GENERAL

The Directors have established the Independent Board Committee, comprising three independent non-executive Directors, to advise the Independent Shareholders in relation to the Supplemental Agreement and the proposed Revised Aggregate Annual Cap. Further, the Independent Financial Adviser has been appointed to advise the Independent Board Committee and Independent Shareholders in this regard.

The EGM will be held for the Independent Shareholders to consider, and if thought fit to approve, among other things, (i) the entering into of the Supplemental Agreement; and (ii) the Revised Aggregate Annual Caps for the three years ending 31 December 2018 by way of ordinary resolutions.

A circular containing, among other things, (i) the principal terms of, and information relating to, the Supplemental Agreement; (ii) information relating to the Revised Aggregate Annual Caps; (iii) a letter from the Independent Financial Adviser which sets out the opinions and recommendations to the Independent Board Committee on the Supplemental Agreement; (iv) a letter from the Independent Board Committee to the Independent Shareholders in relation to the Supplemental Agreement and the Revised Aggregate Annual Caps; and (v) a notice to convene the EGM is expected to be despatched to the Shareholders in accordance with the GEM Listing Rules on or before 2 September 2016.

Reference is made to the respective announcements of the Company dated (i) 18 December 2015 in relation to the Software Licence Agreement entered into between the Company and Banclogix; (ii) 19 April 2016 in relation to the entering into of the Information Technology Services Agreement between the Company and Banclogix, and (iii) 2 June 2016 in relation to the entering into of the Membership Agreement between KVB ZHHQ and TPME.

BACKGROUND OF THE SUPPLEMENTAL AGREEMENT TO THE INFORMATION TECHNOLOGY SERVICES AGREEMENT AND THE REVISION OF PROPOSED AGGREGATE ANNUAL CAPS

On 18 December 2015, the Company entered into the Software Licence Agreement with Banclogix, pursuant to which Banclogix granted the Company a three-year licence to use the leveraged foreign exchange trading software, including without limitation the installation and initial customisation of the software. The consideration was a one-off upfront payment of HK\$3,500,000 paid by the Company to Banclogix.

On 19 April 2016, the Company and Banclogix entered into the Information Technology Services Agreement, pursuant to which Banclogix agreed to from time to time provide software development and maintenance services, information technology infrastructure project management services and information technology infrastructure maintenance services to the Group, for a term commencing from 19 April 2016 and ending on 31 December 2018. The annual caps in respect of the transactions contemplated under the Information Technology Services Agreement for the years ending 31 December 2016, 31 December 2017 and 31 December 2018 were set as HK\$16,500,000, HK\$19,000,000 and HK\$20,000,000 respectively.

Pursuant to Rule 20.79 of the GEM Listing Rules, given the transactions under the Software Licence Agreement and the Information Technology Services Agreement are with the same connected person, namely Banclogix, and were entered into within 12-month period, such transactions shall be aggregated for the purposes of the GEM Listing Rules. For details of the Existing Aggregate Annual Caps, please refer to the section headed “The Revised Aggregate Annual Caps” below.

On 2 June 2016, KVB ZHHQ, an indirect wholly-owned subsidiary of the Company, and TPME, a company incorporated in the People’s Republic of China and a recognised precious metals exchange under the Tianjin Municipal People’s Government, entered into the Membership Agreement, pursuant to which TPME has agreed to provide KVB ZHHQ with a spot trading and settlement platform for precious metals and relevant consultancy, training, coordination and management services.

In addition, the Company intends to enhance its digital marketing strategies by way of digital transformation, including but not limited to strategy review and website revamp.

In light of the Membership Agreement and the Company’s intended enhancement of its digital marketing strategies, the Board expects additional services under the Information Technology Services Agreement to be required by the Group from Banclogix. Thus, the Existing Aggregate Annual Caps need to be increased and revised.

SUPPLEMENTAL AGREEMENT TO THE INFORMATION TECHNOLOGY SERVICES AGREEMENT

The Company and Banclogix have entered into the Supplemental Agreement to revise the Existing Aggregate annual Caps. The principal terms of the Supplemental Agreement are set out below:

Date:	12 August 2016
Parties:	(i) the Company; and (ii) Banclogix
Additional Services:	Software development and maintenance services, information technology infrastructure project management services and information technology infrastructure maintenance services to the Group in order to facilitate (i) the transactions under the Membership Agreement with TPME; and (ii) the intended enhancement of the Company's digital marketing strategies.
Additional Undertaking:	Banclogix additionally undertakes to the Company not to provide services to the Company and its subsidiaries on terms which are less favourable than those offered by the independent third parties.
Revised Aggregate Annual Cap:	For details of the revision to the Existing Aggregate Annual Caps, please refer to the section headed "The Revised Aggregate Annual Caps" below.
Clarification of IT Infrastructure Maintenance Fee:	An annual fixed fee in the sum of (i) IT service desk charges at HK\$1,200,000 per annum and (ii) fees payable for the infrastructure maintenance services which comprise of IT governance and infrastructure support, estimated to consume 60 and 300 man-days respectively on a yearly basis, at a man-day rate of HK\$5,000 per day – benchmarked against external vendors – will be charged and will be reviewed on a yearly basis.

Save as disclosed above, the other terms and conditions of the Information Technology Services Agreement remain unchanged and effective.

CONDITIONS PRECEDENT TO THE SUPPLEMENTAL AGREEMENT

The effectiveness of the Supplemental Agreement is conditional upon the Company having obtained all relevant approvals required under the GEM Listing Rules including *inter alia* obtaining the approval of its Shareholders at a general meeting on or before 31 October 2016 (or such other date agreed by the parties).

If the Company has not obtained all relevant GEM Listing Rules approvals on or before 31 October 2016 (or such other date agreed by the parties), the Supplemental Agreement shall terminate with no further force or effect.

THE REVISED AGGREGATE ANNUAL CAPS

Upon the Supplemental Agreement becoming effective, the Existing Aggregate Annual Caps will be revised and the Revised Aggregate Annual Caps are as follows:

The Existing Aggregate Annual Caps

	For the year ending 31 December 2016	For the year ending 31 December 2017	For the year ending 31 December 2018
Software Licence Agreement	HK\$3,500,000	HK\$0	HK\$0
Information Technology Services Agreement	HK\$16,500,000	HK\$19,000,000	HK\$20,000,000
Existing Aggregate Annual Caps	<u>HK\$20,000,000</u>	<u>HK\$19,000,000</u>	<u>HK\$20,000,000</u>

The Revised Aggregate Annual Caps

	For the year ending 31 December 2016	For the year ending 31 December 2017	For the year ending 31 December 2018
Software Licence Agreement	HK\$3,500,000	HK\$0	HK\$0
Information Technology Services Agreement as revised by the Supplemental Agreement	<u>HK\$25,000,000</u>	<u>HK\$26,000,000</u>	<u>HK\$24,500,000</u>
Revised Aggregate Annual Caps	<u>HK\$28,500,000</u>	<u>HK\$26,000,000</u>	<u>HK\$24,500,000</u>

The above caps were determined by reference to:

- (a) the estimated demand of the Group for each of the software development and maintenance services, information technology infrastructure project management and maintenance services to be received and their relevant prices;
- (b) the projected increase in the demand of information technology infrastructure project management and maintenance services of the Group;
- (c) the increasing need of the Group to continuously develop and improve the software application to support the Group's core businesses; and

- (d) the projected increase in the demand of software development and maintenance services, information technology infrastructure project management and maintenance services of the Group with respect to (i) the transactions contemplated under the Membership Agreement entered into between KVB ZHHQ and TPME; and (ii) the intended enhancement of the Company's digital marketing strategies.

When determining the Revised Aggregate Annual Caps, the Company has also based their determination on the principal assumption that, during the term of the Information Technology Services Agreement as amended by the Supplemental Agreement, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the business of the Group and/or Banclogix.

The Board, excluding the Independent Board Committee, is of the view that the Revised Aggregate Annual Caps are in line with the estimated latest developments of the business and the business plans of the Group, and are determined based on the principles of fairness and reasonableness.

REASONS FOR AND BENEFITS OF THE SUPPLEMENTAL AGREEMENT AND REVISION OF RELEVANT ANNUAL CAPS

The services provided under the Information Technology Services Agreement as amended by the Supplemental Agreement can be utilised by the Group to evaluate, improve and maintain the information technology infrastructures of the Group. Software development services help develop and modify the Group's software applications, which has been a key factor of the Group's past and continued success. Support and maintenance services can better ensure proper operation of the relevant software and minimises possible service interruptions or other negative consequences.

In light of the transactions contemplated under the Membership Agreement with TPME and the Company's intended enhancement of its digital marketing strategies, the Group will require additional information technology infrastructure as contemplated under the Information Technology Services Agreement and accordingly the Supplemental Agreement will allow the Group to improve/implement relevant information technology infrastructure to benefit from the Membership Agreement and its digital marketing strategies.

The abovementioned continuing connected transaction as contemplated under the Information Technology Services Agreement as amended by the Supplemental Agreement will occur on a regular and continuing basis in the ordinary and usual course of business of the Group.

Based on the above factors, the Directors (excluding the independent non-executive Directors whose opinion will be set out in the circular of the EGM, and excluding Mr. Li and Mr. Liu, who are considered having a material interest in the transactions contemplated under the Information Technology Services Agreement as amended by the Supplemental Agreement and were hence required to abstain from voting in respect of the relevant board resolutions) are of the view that the Information Technology Services Agreement as amended by the Supplemental Agreement and the terms thereof and the Revised Aggregate Annual Caps for the three years ending 31 December 2018 have been entered into on an arm's length basis and in the ordinary and usual course of business, and that the transactions contemplated thereunder and the Revised Aggregate Annual

Caps are on normal commercial terms or on terms no less favourable than those available from independent third parties on the same or similar services, and are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

INFORMATION ABOUT THE PARTIES

The Group is principally engaged in leveraged foreign exchange and other trading, while the provision of cash dealing and securities trading referral services also form part of the Group's business model.

Banclogix is principally engaged in the provision of information technology services and is wholly owned by KVB Holdings which is principally engaged in investment holding and is owned as to 75% of its equity interest by Mr. Li, a non-executive Director, and 25% of its equity interest by the Administrators. KVB Holdings holds approximately 14.75% of the issued share capital of the Company as at the date of this announcement.

GEM LISTING RULES IMPLICATIONS

As at the date of this announcement, Banclogix is a wholly-owned subsidiary of KVB Holdings which is a substantial shareholder of the Company, and is therefore a connected person of the Company under Chapter 20 of the GEM Listing Rules. Accordingly, the Information Technology Services Agreement as amended by the Supplemental Agreement constitutes a continuing connected transaction of the Company under Chapter 20 of the GEM Listing Rules.

Pursuant to Rule 20.79 of the GEM Listing Rules, the transactions contemplated under the Information Technology Services Agreement as amended by the Supplemental Agreement are required to be aggregated with the transactions under the Software Licence Agreement (which is also a continuing connected transaction with Banclogix) as they were entered into within a 12-month period.

As one or more of the applicable percentage ratio(s) (as defined in Rule 19.07 of the GEM Listing Rules) exceeds 5%, the transactions contemplated thereunder constitute non-exempt continuing connected transactions of the Company and are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. KVB Holdings and its associates are required to abstain from voting on the resolution of the EGM for approving the Supplemental Agreement and the Revised Aggregate Annual Caps. Saved as mentioned above, to the best of the Directors' knowledge and belief, there are no other Shareholders that have any material interest in the transactions and therefore will not be required to abstain from voting on the relevant resolutions at the EGM.

The Directors have established the Independent Board Committee comprising three independent non-executive Directors, namely Ms. Zhao Guixin, Mr. Cornelis Jacobus Keyser and Mr. Lin Wenhui, to advise the Independent Shareholders in respect of, among other things, the Supplemental Agreement and the Revised Aggregate Annual Caps. The Independent Financial Adviser has also been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

GENERAL

The EGM will be held for the Independent Shareholders to consider, and if thought fit to approve, among other things, (i) the entering into of the Supplemental Agreement; and (ii) the Revised Aggregate Annual Caps for the three years ending 31 December 2018 by way of ordinary resolutions.

A circular containing, among other things, (i) principal terms of, and information relating to, the Supplemental Agreement; (ii) information relating to the Revised Aggregate Annual Caps; (iii) a letter from the Independent Financial Adviser which sets out the opinions and recommendations to the Independent Board Committee on the Supplemental Agreement and the Revised Aggregate Annual Caps; (iv) a letter from the Independent Board Committee to the Independent Shareholders in relation to the Supplemental Agreement and the Revised Aggregate Annual Caps; and (v) a notice to convene the EGM is expected to be despatched to the Shareholders in accordance with the GEM Listing Rules on or before 2 September 2016.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, no Director has a material interest in the Information Technology Services Agreement, the Supplemental Agreement and the transactions contemplated thereunder, save that (i) Mr. Li is a director of KVB Holdings and he, together with the other Administrator, indirectly owns the entire equity interest of Banclogix; and (ii) Mr. Liu is a director of KVB Holdings. Accordingly, Mr. Li and Mr. Liu are considered to have a material interest in the Information Technology Services Agreement, the Supplemental Agreement and the transactions contemplated thereunder, and they were required to abstain, and did abstain from voting on the Board meeting approving the Supplemental Agreement and the transactions contemplated thereunder.

In the event that the aggregate amount of fees payable to Banclogix in any period or year is expected to exceed the Revised Aggregate Annual Caps, or there are any further proposed material changes to the terms of the Information Technology Services Agreement as amended by the Supplemental Agreement, the Company will re-comply with the announcement and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules accordingly.

DEFINITIONS

Unless the context requires otherwise, the following words and phrases used in this announcement have the following meanings:

“Administrator(s)”	Mr. Li and Mr. Chan Man Fai, each being an administrator of the two administrators of the estate of the late Ms. Tsui Wang, Mr. Li’s late spouse, in Hong Kong and the BVI as appointed pursuant to 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. Mr. Chan is a friend of the family of Mr. Li and is independent of Ms. Tsui and the Group;
“associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules;
“Banclogix”	Banclogix System Co., Limited, a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of KVB Holdings;
“Board”	the board of Directors;
“BVI”	the British Virgin Islands;
“Company”	KVB Kunlun Financial Group Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the GEM;
“connected person(s)”	has the meaning ascribed thereto under the GEM Listing Rules;
“Director(s)”	the director(s) of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened and held for the Independent Shareholders to consider and, if thought fit, approve the resolutions in respect of the Supplemental Agreement and the transactions contemplated thereunder, including the Revised Aggregate Annual Caps;
“Existing Aggregate Annual Caps”	the existing annual caps for the transactions contemplated under the Software Licence Agreement and the Information Technology Services Agreement;
“GEM”	the Growth Enterprise Market operated by the Stock Exchange;
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM;
“Group”	the Company and its subsidiaries from time to time;

“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“independent third party(ies)”	party or parties independent of, and not connected with, the Company and its connected persons and their respective associates;
“Independent Board Committee”	a committee of the Board comprising all independent non-executive Directors appointed to advise the Independent Shareholders in respect of the Supplemental Agreement and Revised Aggregate Annual Caps;
“Independent Financial Adviser”	Octal Capital Limited, a licensed corporation permitted to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Supplemental Agreement and the Revised Aggregate Annual Caps;
“Independent Shareholders”	the Shareholders who are not required to abstain from voting on the resolution at the EGM for approving the Supplemental Agreement and the Revised Aggregate Annual Caps under the GEM Listing Rules;
“KVB ZHHQ”	珠海橫琴昆侖新金融交易中心有限公司 (Zhuhai Hengqin Kunlun Financial Exchange Limited), a company incorporated in the People’s Republic of China with limited liability and is an indirect wholly-owned subsidiary of the Company;
“KVB Holdings”	KVB Kunlun Holdings Limited, a company incorporated in the BVI, being one of the substantial shareholders of the Company and is held as to 75% by Mr. Li and 25% by the Administrators;
“Membership Agreement”	the principal membership agreement dated 2 June 2016 between TPME and KVB ZHHQ in respect of the admission of KVB ZHHQ by TPME as a principal member;
“Mr. Li”	Mr. Li Zhi Da, being one of the non-executive Directors of the Company and one of the Administrators;
“Mr. Liu”	Mr. Liu Stefan, an executive Director and the chief executive officer of the Company;

“Information Technology Services Agreement”	the information technology services agreement entered into between the Company and Banclogix on 19 April 2016 pursuant to which Banclogix agreed to provide the Company and its subsidiaries with the Services (as defined in the Information Technology Services Agreement) in the ordinary and usual course of business;
“Revised Aggregate Annual Caps”	the revised maximum amounts payable by the Group to Banclogix under the Information Technology Services Agreement as amended by the Supplemental Agreement and under the Software Licence Agreement;
“Shareholder(s)”	holders of shares of the Company;
“Software Licence Agreement”	the agreement dated 18 December 2015 entered into between the Company and Banclogix whereby Banclogix granted to the Company the Leveraged FX Software Licence;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder(s)”	substantial shareholders defined under rule 1.01 of the GEM Listing Rules;
“Supplemental Agreement”	the conditional supplemental agreement to the Information Technology Services Agreement entered into between the Company and Banclogix on 12 August 2016 to amend certain terms of the Information Technology Services Agreement ;
“TPME”	天津貴金屬交易所有限公司 (Tianjin Precious Metals Exchange Limited), a company incorporated in the People’s Republic of China and a recognised precious metals exchange under the Tianjin Municipal People’s Government;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“%”	per cent.

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

Hong Kong, 12 August 2016

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

Executive Directors

Mr. Liu Stefan

Mr. Ng Chee Hung Frederick

Non-executive Directors

Mr. Li Zhi Da

Mr. Stephen Gregory McCoy

Independent Non-executive Directors

Ms. Zhao Guixin

Mr. Cornelis Jacobus Keyser

Mr. Lin Wenhui

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

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