

KVB Kunlun New Zealand Limited

Margin Foreign Exchange Contracts

Product Disclosure Statement

Issue Date 1 September 2010



IMPORTANT INFORMATION

Derivatives such as Margin Foreign Exchange Contracts are speculative investments that are often highly leveraged. This increased leverage places significantly greater risk on your initial investment than trading in the underlying currency. When entering into these investments it is important to ascertain the suitability of such investments for you. We urge you to read all documents carefully, ask questions and seek independent investment, taxation and legal advice before committing yourself to trading in these products.

Choosing a product

This Product Disclosure Statement (PDS) does not constitute a recommendation or opinion that KVB products are appropriate for you.

The information contained in this PDS does not take into account your objectives, financial situation and needs. You should read this PDS carefully and consider whether trading in Margined Foreign Exchange Contracts are suitable in light of your objectives, financial situation and needs.

When deciding whether to enter into a Margin Foreign Exchange Contracts, consider carefully the information contained in this PDS.

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1 General Information

1.1 Purpose

This Product Disclosure Statement (“PDS”) is issued by KVB Kunlun New Zealand Limited (**KVB**). It is an important document and is designed to provide you with sufficient information in deciding whether to acquire the financial products set out in this PDS. We recommend that you take all reasonable steps to fully understand the outcomes of specific Margin Foreign Exchange Contracts and strategies adopted in relation to utilising the products provided by us.

Before deciding whether to deal in KVB products, you should consider whether dealing in speculative investments are suitable investments for you. The risks associated with the dealing in Margin Foreign Exchange Contracts are set out in a later section. Independent taxation and accounting advice should also be sought in relation to the impact of foreign exchange gains and losses on your particular financial situation.

This document should be read in conjunction with KVB's Client Services Agreement (**CSA**) that lists the Terms and Conditions under which you will deal in, and with, KVB products.

KVB also provides services to Australian clients through its associated company, KVB Kunlun Pty Ltd (**KVB AU**). KVB AU holds an Australian Financial Services License from the Australian Securities and Investments Commission (**ASIC**) (Licence no. 226602). This entitles KVB AU to carry on the business of arranging to deal and advise in foreign exchange and derivatives contracts.

The Securities Commission in New Zealand (**Securities Commission**) has authorised KVB to deal in Margin Foreign Exchange, however, the Securities Commission and ASIC's role do not imply the approval or endorsement of the business, trading or solvency of KVB / KVB AU. The Securities Commission has not approved any agreements or any disclosure documents of KVB.

If you do not understand any part of this PDS, please contact us by telephone.

1.2 Investment Brokers and Advisors Disclosures

An Investment Brokers Disclosure relating to KVB Kunlun New Zealand Limited is available free and on request from KVB Kunlun New Zealand Limited.

In addition you should also receive a disclosure statement from your investment adviser, before any investment advice is given, stating their relevant qualifications, experience as an investment adviser, absence of any criminal convictions and pecuniary interest in giving advice.

1.3 Product Provider Contact Details

Products referred to in this PDS, and additional information on the services that KVB Kunlun New Zealand Limited provide, are available from:

KVB Kunlun New Zealand Limited
Level 10, The National Bank Tower
205 Queen Street
Auckland, New Zealand

Telephone +64 9 359 8988

Principal contact: Business Development Manager

Website: www.kvbkunlun.com

Latest financial statements can be obtained from the New Zealand Companies Office website at www.companies.govt.nz/cms

1.4 What if I have a complaint?

KVB Kunlun New Zealand Limited has internal and external dispute resolution processes in place. If you have a complaint about the services or products provided to you by KVB Kunlun New Zealand Limited, you should take the following steps:

1. Contact your KVB Kunlun New Zealand Limited Representative and discuss your concerns.
2. If your complaint is not satisfactorily resolved, contact the Compliance Officer of KVB Kunlun New Zealand Limited to inform us about your complaint. You may do this by telephone, facsimile, email or letter.
3. If you are dissatisfied with the outcome, you have the right to complain to the Securities Commission. The Commission can be contacted at the following Address:

Securities Commission
PO Box 1179
Wellington
New Zealand

Tel: +64 4 472 9830
Fax: +64 4 472 8076
Email: seccom@sec-com.govt.nz

If you require any further information about our dispute resolution system, please contact KVB Kunlun New Zealand Limited and request a copy of our dispute resolution procedures.

2. Definitions

The Client Services Agreement (CSA) includes definitions of many words used in the CSA and this PDS. Below are additional words and their meanings. If there is a discrepancy between the CSA and PDS then the wording in the CSA prevails.

Trading Account - account established in your name for the purpose of trading Margin Foreign Exchange Contracts and other products with KVB.

3. How to Use This Product Disclosure Statement

3.1 Jurisdiction

The distribution of this PDS may be restricted in certain jurisdictions outside of New Zealand. Persons who obtain this PDS must observe such restrictions. This PDS does not constitute an offer or solicitation to anyone in any jurisdiction where such an offer is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

3.2 Applying to deal with KVB

Before you begin dealing in KVB products you must complete and sign the CSA and be approved by KVB.

3.3 This PDS and other documents

You should keep this PDS, CSA, and any other supplementary, and replacement documents along with any updated information issued by KVB to you for future reference. These documents individually and together, as the case requires are referred to as the “**KVB Agreement**” in this PDS. These documents are all available at www.kvbkunlun.com.

3.4 Use of examples in this PDS

Examples shown in this PDS are provided for illustrative purposes only. The examples use figures which attempt to illustrate how the KVB product and requirements work. The figures do not essentially reflect KVB's or your personal circumstances and do not, in any manner, restrict the way in which KVB may exercise its powers or discretion. The examples do not constitute general or personal financial product advice.

3.5 Taxation

KVB does not provide taxation advice nor do we take responsibility for personal taxation implications in respect of this or any other product. It is recommended that you seek independent taxation advice before investing in this product. Resident Withholding Tax and Non Resident Withholding Tax may be applicable to this product.

3.6 Acknowledgments

By signing and returning to KVB, or submitting electronically, the KVB Agreement, or continuing to deal with KVB after you received this PDS, you acknowledge to KVB that you:

- are aware that investing in derivatives carries a high level of risk to your capital due to the potential volatility and fluctuations in value that may occur in the underlying currency and that, you may not get back the full amount of

your original investment. In certain circumstances you may also be liable to pay a greater sum, with losses being higher than the moneys you have deposited with KVB;

- have given thought to your financial objectives and situation, your needs and the significant risks of loss which accompany the prospects of profit associated with dealing in Margin Foreign Exchange and have formed the opinion that dealing in Margin Foreign Exchange Contracts is suitable for your purposes;
- were advised by KVB to obtain appropriate and sufficient independent advice concerning the terms of this PDS, and any other documents comprising the KVB Agreement;
- received or downloaded this PDS and the other documents comprising the KVB Agreement, and have read and understood them and/or have had them explained to you by a KVB representative;
- agree that KVB will provide its services to you on the terms and conditions of this PDS, and other documents that comprise the KVB Agreement;
- understand that unless required by regulations and laws of the jurisdictions in which KVB or its related entities operates, KVB will not be liable for any damages, losses and/or injuries suffered or incurred by clients due to any types of misrepresentation of information or general financial information by, or on behalf of, KVB.

4. Procedures for Dealing with Money and Property

In transferring money to KVB the client must adhere to the following:

Currency type:

NZ Dollars, AU Dollars, US Dollars and other currencies acceptable to KVB. If there is any uncertainty, please contact KVB for advice.

(a) Wiring Instructions

Please contact KVB for currency transfer instructions. The client must provide KVB with the transfer advice from the remitting bank.

(b) Money and property held by KVB

Client money or property received by KVB will be held in segregated client bank account(s) in terms of New Zealand's Futures Industry (Client Funds) Regulations 1990, and will be so held until it is disbursed or distributed in accordance with the client instructions. Specifically, all client money received by KVB will, immediately after it is received, be paid into a client bank account (see Paragraph 5(b) below) and will be held on same day call.

The client money and property may be used by KVB in accordance with the provisions of the CSA or as permitted by the Regulations. Specifically, KVB will ensure that no money is paid out of a client bank account except for the purpose of—

- (a) Making a payment for, or in connection with, the entering into, margining, or settling of a derivatives contract by KVB on behalf of the client entitled to the money; or
- (b) Acquiring a specified client investment on behalf of the client entitled to the money, in accordance with the written authority, whether general or specific, of the client; or
- (c) Acquiring any property (other than a specified client investment) on behalf of the client entitled to the money, in accordance with the specific written authority of the client; or
- (d) Making a payment to the client entitled to the money; or
- (e) Making a payment to another person specified by the

client entitled to the money in accordance with the specific written authority of the client; or

- (f) Meeting the amount of any fees, commissions, or other charges properly payable by a client to KVB in respect of any dealing in Derivative contracts on behalf of the client; or
- (g) Making a payment to KVB in reimbursement for any payment made by KVB to or on behalf of a client for which KVB is entitled to be reimbursed by the client; or
- (h) Withdrawing an amount pursuant to regulation 17 or regulation 18(2) of these Regulations.

KVB will ensure that no money is paid out of a client bank account in respect of a client unless there is standing to the credit of the client in the account sufficient funds to cover the payment.

It should be noted that when a derivative position is opened, KVB is entitled to the initial margin and any variation margin while the position is opened. When KVB withdraws margin from the client money account based on such a right, the money equal to those margin payments ceases to be client money.

Even though the client bank account is a separate account subject to the Regulations, clients are exposed to counterparty risk with respect to client money. That is, the risk that in the event of the failure of another client or KVB, a client will not receive all of their client money back. This arises because: (a) KVB is permitted to use client money to meet obligations incurred by KVB in connection with margining, guaranteeing, securing, transferring, adjusting or settling dealings in derivatives by KVB, including dealings on behalf of people other than the client;

(b) KVB may make a withdrawal from a client money account of money to which it is entitled and that entitlement may be created under the terms of its client agreement by specifying when margin is due and payable; and

(c) KVB may make a payment out of client money if it has obtained a written direction from the person entitled to the money.

The client funds provisions do not apply to:

- (a) money paid by way of remuneration payable to KVB;
- (b) money paid to reimburse (or discharge a liability incurred by) KVB for payment made to acquire a financial product (or to indemnify KVB in respect of such a liability);
- (c) money paid to acquire a financial product or an increased interest in a financial product from KVB;

(c) Use of money or property

The client consents to KVB and any associate of KVB, earning interest, fees or commissions in connection with any of the client's cash deposits in the ordinary course of its business.

Money held on behalf of clients may be used as margin for trading activities as per the relevant client agreement entered into by the client or as per the client instruction.

(d) KVB Principal and Staff Dealing

KVB may deal as principal on its own account and take the opposite position to any order or transaction of the Client and pursuant to the staff dealing policies of KVB, KVB's directors, employees, persons and associated entities may be allowed to trade on their own account.

When KVB enters into a transaction for the client, KVB and its associated entities or other persons connected with KVB, may have a material interest in the transaction, contracts or services provided to the client that is in conflict with the

interests of the client and the client agrees that KVB and its associated entities or other persons connected to KVB, shall not be obliged to account to the client for any resulting profit made. However, KVB's employees are required to comply with a policy of independence and ignore any such interest or conflict of interest when entering into a transaction for the client.

(e) Records

The following records that relate to client money, property and trading activities are kept by KVB:

- Books of accounts
- Client statements
- Client Details
- Records of activities
- Instructions received from clients
- Trades executed
- Brokerage fees charged

Accounting and dealing records are kept for at least seven (7) years. The records of telephone and internet conversations are kept for at least one (1) year. A request for a copy of any or all of the above records must be made to KVB (refer to "Contact Details") by way of a medium acceptable to KVB such as fax, mail or email. Clients will receive a copy of the requested records by fax, mail, or through an electronic medium. The charges for such services / requests are available from KVB on request.

(f) Auditor

The records of client money and property received, held and disbursed or distributed, are audited on a twice per year basis by the Compliance Reporter as required by the Securities Commission.

KVB has currently appointed the following person to act as its Compliance Reporter: **PriceWaterhouseCoopers**

(g) Financial Statements

Additional information on services that KVB Kunlun provides can be obtained by visiting our website at www.kvbkunlun.com. Latest financial statements can be obtained from the New Zealand Companies Office website at www.companies.govt.nz

5. Other Disclosures

(a) Specified Futures Contracts and other Securities covered by KVB's services

KVB provides trading in Margined Foreign Exchange Contracts, Margined Contracts for Difference and Futures and Options Contracts (collectively referred to as "Margin Foreign Exchange").

(b) Institutional Relationships

KVB has execution, clearing and custody services in place for Contracts traded through KVB by its clients with various financial institutions. Clients may refer to www.kvbkunlun.com for information on these institutions from time to time.

KVB maintains segregated client bank accounts for client funds deposited with KVB (as per Futures Industry (Clients

Funds) Regulations 1990 of New Zealand). The primary banking institutions used by KVB for Client Funds are:

Hong Kong and Shanghai Banking Corporation Ltd -
- Auckland, New Zealand

ANZ/National Bank
- Auckland, New Zealand

These Banks have acknowledged that the account is one to which Futures Industry (Clients Funds) Regulations 1990 apply meaning that all money that is at any time in the account is held by KVB on behalf of clients of KVB; that the Bank is not entitled to combine the account with any other account, except with other client bank accounts maintained by KVB with the Bank in respect of the KVB's business as an Authorised futures dealer; and that the Bank is not entitled to exercise any right of setoff or counterclaim against money in the account in respect of any amount owed to the Bank by KVB.

KVB also maintains accounts with Banks outside New Zealand that have declined to give such an acknowledgment therefore KVB has advised the client entitled to the money that the money may not have the protection afforded by regulation 20 of Futures Industry (Client Funds) Regulations 1990; and has obtained the written agreement of the client in form 2 at Appendix II of the CSA that, notwithstanding such advice, the money may be paid into the client bank account with the overseas Bank.

There may be other segregated client bank accounts in future and clients may request an updated list at any time.

(c) Pecuniary Interests

The advisory services of KVB are provided by authorised personnel and are provided only for clients of KVB. Before any investment advice is given you should receive a disclosure statement from our adviser stating their relevant qualification, experience as an investment adviser, absence of any criminal convictions and pecuniary interest in giving advice. KVB advisers may benefit by providing client advice where such advice leads to the Client giving KVB orders for execution for which KVB charges the Client fees. Advisers are not authorised to give advice on any securities where he or she may hold personal investments or interests, without disclosing this fact to the client(s) before providing such service.

(d) Remuneration

In addition to execution charges, clearing charges, fees and/or share or rebates in execution charges from the executing institutions for business introduced, there are no charges for the advice given to clients although KVB may indirectly benefit from the advice given to clients where such advice leads clients to give KVB orders for execution which attract the charges and fees referred to previously.

6 Introduction to Margin Foreign Exchange Contracts & Transactions

A Margin Foreign Exchange Contract is a derivatives contract in which an investor can receive the economic benefits of holding an underlying currency without having equitable or legal title to that currency. The price of the Margin Foreign Exchange Contract may be derived by reference to the price

of the underlying currency and the counterparties to the Margin Foreign Exchange Contract agree to settle the difference between the acquisition and disposal price in cash. There is no delivery, physical or otherwise, of the underlying currency.

Margin Foreign Exchange Contracts and CFDs can be made available in foreign currencies, stock indices, shares or other securities, gold and silver. This PDS relates to Margin Foreign Exchange as approved by KVB. More details are provided in the following sections.

Margin Foreign Exchange Contracts are over the counter products where the price is established by KVB. Margin Foreign Exchange Contracts aim to reflect the fair value of the underlying currency as traded in the spot market but the actual bid and ask price may differ slightly from the actual spot currency level.

As with the underlying currency, Margin Foreign Exchange Contracts allow you to benefit from normal market movements. Your open positions are revalued real time during the trading hours of the Margin Foreign Exchange Contracts and profits or losses are credited / debited to your account immediately. Any profit or loss will be affected by other payments applied to the Margin Foreign Exchange Contract such as commissions (for Mini Accounts), forward points and interest charges (if any).

Although Margin Foreign Exchange Contracts work similarly to a traditional currency spot and forward contracts, clients who invest in Margin Foreign Exchange Contracts do not have the right or obligation to acquire or deliver the physical currency, or other rights that holder of the spot or forward are entitled to. Clients are, however, able to place limit orders (buy/sell), instant market orders, stop orders (buy/sell) and stop loss orders, as described in later chapters.

The Margin Foreign Exchange Contract works on the basis of the mark-to-market payment, which means payment will be credited to or debited from the account real time based on the price movement of the Margin Foreign Exchange Contract. As this product works in a margin mode (as described in section 7.3), clients who invest in this product need to make sure that their Trading Account(s) have sufficient capital as free margin in order to meet the required mark-to-market payments at all times. Failure to do so may result in the positions being closed out on an involuntary basis.

7. Key Features of Margin Foreign Exchange Offered by KVB

7.1 Underlying Currencies

Margin Foreign Exchange Contracts that are available to be traded on our platform are listed on the KVB website and are updated by KVB from time to time.

7.2 Minimum Account Opening Balance and Currency

There is usually no minimum account opening deposit required however this may be determined by KVB from time to time. You shall deposit USD, AUD or NZD or any other foreign currency as agreed to by KVB, into your account for trading. Before trading the Margin Foreign Exchange Contract with KVB, new clients need to enter into an agreement with KVB and open a Trading Account. Clients are required to deposit cleared funds as collateral, and will only be able to commence trading after all necessary procedures have been completed. Existing clients need to

ensure that they have read, understand and agree to the terms and conditions as set out in this PDS.

Note: If the denominated currency of the Margin Foreign Exchange Contract is different to the denominated currency of the client's Trading Account, all initial margin, profits and losses, debits and credits in respect of a Margin Foreign Exchange Contract will be converted at the prevailing market price to the denominated currency of the account.

KVB offers clients the opportunity to trade Margin Foreign Exchange through: 1) online dealing platform, and 2) telephone dealing (*when dealing by telephone you also agree and specifically consent to KVB Kunlun electronically recording and monitoring telephone conversations with or without automatic tone warning devices*). All other channels like chats, email and facsimile will not be accepted for dealing or placing orders.

7.3 Initial Margin

One benefit about Margin Foreign Exchange Contracts trading is that it provides clients the flexibility to trade the Margin Foreign Exchange Contracts with only the minimum margin requirement. The initial margin rate is generally set at 1% to 5% of the Margin Foreign Exchange Contract Value of the Margin Foreign Exchange Contract; however the rate may vary depending on the liquidity and volatility of the market. KVB may adjust the margin rate requirement at its sole discretion.

7.4 Cash flows and Collateral

Clients are required to deposit at least the minimum margin requirement as collateral and, since the required collateral for the Margin Foreign Exchange Contracts will fluctuate depending on the market movements, it is the clients responsibility to monitor, at all times, the free margin and margin required for the Trading Account, and deposit additional margin when necessary.

Leveraged trading requires only a relatively low amount of margin to be deposited, and an extremely high degree of leverage is used so that the deposit may secure a Margin Foreign Exchange Contract with a much greater value. Therefore, a small price movement in a Margin Foreign Exchange Contract and/or any other product(s) traded under the client's Trading Account may result in a substantial loss in the margin amount. If at any time there are insufficient funds in the Trading Account(s) to meet the minimum required collateral obligations (i.e. the margin level reaches the stop out level) based on the mark-to-market payment, the client's current open positions, which includes Margin Foreign Exchange Contracts and/or other products, may be closed out on an involuntarily basis by KVB. In addition, the margin requirement may be amended within a very short notice period when the liquidity and volatility of the currency moves to an extreme level such that additional collateral needs to be required in order to preserve both the parties' interests.

Clients will not be allowed to open new positions, except to reduce their existing positions, when their free margin falls below zero.

7.5 Establishing a Margin Foreign Exchange Contract

Position

The client can take both a bought (long) and sold (short) positions. Going Long means clients take a position to buy the Margin Foreign Exchange Contract, while Going Short

means that clients are selling the Margin Foreign Exchange Contract from KVB. In both cases, clients need to deposit an amount of cash as collateral.

7.6 Margin Foreign Exchange Contract Expiry

Margin Foreign Exchange Contracts have no set expiry date and remain open until they are closed in accordance with the terms of the KVB Agreement or as otherwise agreed between you and KVB.

7.7 Closing a Margin Foreign Exchange Contract

Position

Margin Foreign Exchange Contracts can generally be closed on a local business day at any time during the trading hours of the market on which the Margin Foreign Exchange Contract is quoted, subject to KVB giving you a bid/offer quote for the Margin Foreign Exchange Contract and you agree to accept that price. If the client holds a long (bought) position they can close the contract by taking an equal and opposite

As the Margin Foreign Exchange Contracts are issued by KVB "over the counter" and not through an exchange, the Margin Foreign Exchange Contract is a contract between you and KVB and can only be closed in accordance with the terms and conditions of the KVB Agreement or as otherwise agreed between the client and KVB.

The total profit/loss is determined by multiplying the number of Margin Foreign Exchange Contracts held by the differential between the long and short.

Note: The client may not be able to close out a Margin Foreign Exchange Contract if there is a suspension of trading or a trading halt. In such circumstances, KVB may decide in its absolute discretion not to allow the client to close a Margin Foreign Exchange Contract.

7.8 Prices Quoted by KVB

The Margin Foreign Exchange Contract price will be based on trading prices of the underlying currency. The bid and ask prices indicated on the platform are derived from the underlying market. As KVB is a market maker, not a broker, and acting as a principal instead of an agent, when conducting Margin Foreign Exchange Contract transactions with clients, the price of the Margin Foreign Exchange Contract is based on the underlying price of the instruments in the underlying currency market, and the minimum spread that is to be applied on both bid and ask prices is at KVB's sole discretion. As a consequence, the price may not be the same as that trading in the underlying currency in which the product is actually based on.

Clients may experience a "gapping" of prices. Gapping is when the price makes a sharp move up or down with no trading occurring in between. It may happen in the course of ordinary trading, after a market announcement or between the yesterday closing and today opening prices. A market gap may result in clients not being able to close out positions or open new positions at the price level they desire. Since gapping usually occurs when the underlying currency market lacks liquidity or the aggregate orders are higher than the normal level, in this circumstance KVB may need to re-quote the price based on those market circumstances for clients. Therefore, clients are reminded that the actual price filled for take profit and stop loss orders may not be the same as the actual price set by the client.

In other circumstances KVB also reserves the right to re-quote the price of the Margin Foreign Exchange Contract:

- When the volume of the Margin Foreign Exchange Contracts clients wish to deal in cannot be executed in the underlying market, in which case KVB needs to re-quote the price based on the clients volume in order to reflect the illiquidity premium in the market.
- If KVB receives requests on the price of the particular currency, in which the volume to be dealt with exceeds that available, KVB reserves the right to re-quote the price of the contract.

KVB has no pre-determined spread percentage to be charged on the price of the underlying currency for the Margin Foreign Exchange Contracts, and different clients may receive different quotes based on the volume and the liquidity of the products.

7.9 When Margin Foreign Exchange Contract Prices Are Decided at KVB's Discretion

Disruption Events

Such events shall include but not limited to technical difficulties such as telecommunication failure and disruptions, non-availability of KVB's on-line trading platform due to maintenance, downtime, civil unrest, terrorism, war, natural disasters, strikes, lock-outs, fire or such. KVB shall not be liable to the Client for any failure, hindrance or delay in performing its obligations where such failure, hindrance or delay arises directly or indirectly from circumstances beyond its reasonable control.

During such disruption events where clients cannot perform trades via the on-line trading platform, KVB will perform all trades via telephone if and where possible.

7.10 KVB's rights to limit or close a Clients position

KVB reserves the right to limit the size of client's open positions, whether in a net or gross basis, when the market is in an abnormal trading state. The term "abnormal trading state" means that the trading condition in the underlying market or Margin Foreign Exchange Contract is not performing as usual, and includes such situations as abnormally low liquidity and wide spread prices in the underlying currency. KVB may refuse clients requests to place orders and/or perform instant execution when the market condition is so limited such that KVB is unable to obtain a reasonable quote from the market.

KVB also has the right, whether with or without notice to clients, to close out all or part of the client's holding positions as KVB considers appropriate, or to limit the size of the client's open positions, or to refuse to establish new positions if –

- KVB considers that the market is in an abnormal trading state;
- KVB is unable to make the prices of the underlying currency due to market illiquidity and the unavailability of relevant market information;
- KVB suspects that those affected clients may be dealing/have the intention to snip;
- KVB considers that clients may be in breach of applicable laws and regulations;
- Clients fail to provide any margin, or are unable to provide additional margin after being stopped-out from previous trading activities;
- Clients are trading/placing orders such that the size of the position is outside the normal trading size.

7.11 Rights of Margin Foreign Exchange Contract Holders

Even though a Margin Foreign Exchange Contract works in a similar way to the currency and the value of Margin Foreign Exchange Contract is basically derived from the related underlying currency, Margin Foreign Exchange Contract holders do not actually hold the underlying currency and may not enjoy the same rights as the holders of currency nor are they entitled to sell or transfer ownership to another person or entity.

8. Amounts Payable

The client must pay all transaction fees, commissions, margins, settlements, interest, swap points and any amounts due under the KVB Agreement in cleared funds or as otherwise required under the terms of the KVB Agreement. The figures stated below are subject to change, and clients are advised to ask KVB for the latest updates or view them on KVB's website.

8.1 Commission

The rate of commission will depend on the Relevant Currency of the Margin Foreign Exchange Contract and the size of the transaction involved. A minimum transaction commission may apply per trade and details of this can be found on our website.

Commission is normally a fixed amount per Margin Foreign Exchange Contract being transacted. If you enter into Margin Foreign Exchange Contract transactions on a frequent basis, a discount may be offered.

8.2 Interest on Account Balance

Interest will not be paid on the credit balance of the free equity in the client's Trading Account, and will be charged on the full amount of the debit balance when there is any money owing by the client under the KVB Agreement, or any other accounts the client holds with KVB that are not paid when due. The rate of interest in respect of each Relevant Currency is the applicable Interbank rate plus or minus a margin. The base interest rate and the actual interest rate margin is determined and advised by KVB from time to time. Interest is calculated daily and charged to the client's account monthly.

8.3 Overnight Swap Points

Open positions held overnight will be charged an overnight financing cost (swap cost). This is based on the notional amount of the position and prevailing interest rate differential between the two currencies that have been bought and sold. The interest rate differential is converted into foreign exchange points and may vary each day, depending on the relevant interest rates. Overnight financing costs are published on KVB's website.

For example if you have bought NZD against the USD and NZD interest rates are higher than USD interest rates you will receive the swap points for every day that you hold the higher yielding currency (NZD).

However if you have sold NZD against the USD you will pay the swap points on a daily basis as you have sold the high yielding currency (NZD) and bought the lower yielding currency(USD).

9. Examples

Note: This section provides hypothetical examples of how a Margin Foreign Exchange Contract works. All reference prices are provided only for illustrative purposes, and should not be taken as an indication or as a commitment by KVB as to how these situations would actually apply to a specific Margin Foreign Exchange Contract or the order for a Margin Foreign Exchange Contract.

All foreign exchange prices are quoted as a bid/offer price, e.g. EUR/USD at 1.3000/02. The rate of 1.3002 is the rate at which you can buy the EUR against the USD. The rate of 1.3000 is the rate of which you can sell EUR against the USD.

1. Taking a long position and making a profit

Client A believes the EUR will strengthen against the USD. He therefore buys 1 lot (goes long), of EUR/USD at the offer price of 1.3002. He holds the position for 1 day and then closes the position the next day at the higher price of EUR/USD 1.3150. This will give him a gross profit of 0.0148 points expressed as:

Profit/Loss calculation: USD100,000 x (1.3150 - 1.3002)
 Gross Profit = USD 1,480.00

As this position was held overnight, an interest rate differential charge (swap cost) for 1 day will also apply to this trade.

Bought (long) EUR/USD receive 0.3 points (0.00003) per day
 Sold (short) EUR/USD pay 0.4 points (0.00004) per day

Profit calculation

USD 100,000 x 0.00003 = interest received USD 3.00 + trading profit USD 1,480.00
 Total profit = USD 1,483.00

2. Taking a long position and making a loss

Client B believes that the EUR will strengthen against the USD. He therefore buys (goes long) 1 lot (100,000) of EUR/USD at the offer price of 1.3002. The position is held for 1 day but the EUR drops against the USD and the position is closed the next day at EUR/USD 1.2910. This will give a loss of 0.0092 points expressed as:

Loss calculation: USD 100,000 x (1.3002 - 1.2910)
 Gross Loss = USD 920

As the position was held overnight for 1 day there will also be a financing change that will apply to this trade:

USD100,000 x 0.00003 = interest receivable USD 3.00
 Loss of USD = (USD 920.00)
 Total loss = USD 917.00

3. Taking a short position and making a loss

Client C believes the GBP will weaken against the USD from the current level of GBP/USD 1.5000/05. He therefore sells (goes short) 1 lot (100,000) GBP/USD at the bid price of 1.5000. He holds the position for 1 day and the price unfortunately moves up to GBP/USD 1.5040/45 he closes the position at the offer price, 1.5045 giving a loss calculated as:

$$100,000 \times (1.5000 - 1.5045) = \text{USD } 450.00$$

As this position was held for 1 day an interest rate change (swap cost) will also apply to this trade.

Bought (long) GBP/USD receive 0.5 points (0.00005) per day
 Sold (short) GBP/USD pay 0.6 points (0.00006) per day

USD 100,000 x 0.00006 = interest payable (USD 6.00)
 Total loss = USD 456.00

4. Taking a short position and making a profit

Client D believes the GBP will weaken against the USD from the current level of GBP/USD 1.5000/05.

He therefore sells (goes short) 1 lot (100,000) GBP/USD at the bid price of 1.5000. He holds the position overnight when the price has then moved down to GBP/USD 1.4910/15 he closes the position at 1.4915, making a profit of:

$$\text{USD } 100,000 \times (1.5000 - 1.4915) = \text{USD } 850 \text{ (profit)}$$

As the position was held overnight a swap cost will also apply to this trade of 0.6 points which will be a cost.

$$\text{USD } 100,000 \times 0.00006 = \text{interest payable USD } 6.00$$

Trading profit	=	USD 850.00
Total profit	=	<u>USD 844.00</u>

10. Benefits and Risks

10.1 Summary of Benefits

1) Potential Magnified Return

Clients who enter into Margined Foreign Exchange Contracts can potentially receive a higher return than a normal currency investment, due to the characteristics of leverage trading. In addition, clients need not commit to the whole amount of their investment; only a small portion is needed to be paid as collateral.

2) Hedging and Speculation

Clients can use Margined Foreign Exchange Contracts to hedge exposure to a position in the underlying currency, as well as speculate with a view to profiting from market fluctuations. Margined Foreign Exchange Contracts allow the client to take an exposure to a particular underlying instrument or security without the need to buy or sell the underlying instrument or security.

3) Diversification

KVB is, and will be, offering clients a range of currencies to trade Margined Foreign Exchange Contracts on, which allows clients a wide variety to invest in, and provides the advantage of diversifying their risks.

4) Short Selling

Margined Foreign Exchange Contracts allow you to obtain the benefits of short selling currency without being subject to the restriction imposed on short selling the actual asset or the need to borrow the actual asset in order to sell it.

10.2 Summary of Risks

1) Potential Magnified Loss

Since Margined Foreign Exchange Contracts require clients to deposit a portion of cash as collateral, it can involve significant levels of gearing and create a potential loss that is higher than trading normally via the underlying currency. Further, if clients are borrowing the capital from other parties when funding their margin account, the risks associated with

a Margined Foreign Exchange Contracts will be even higher. With a leverage of 20 - 100 times, a 1% loss suffered from the trading will result in a 20 - 100% loss when trading Margined Foreign Exchange Contracts on margin, plus other fees such as swap points, interest and commission expenses.

2) Involuntary Close-Out

Due to its leverage nature, the potential losses on a Margined Foreign Exchange Contract position may be substantial. Clients are required to monitor their margin level in order not to be "stopped out" when the margin falls below the stop out level (e.g. 20% or 50% depending on the agreement between KVB and the client). For example, if client A is entering into a Margined Foreign Exchange Contract position with a value equivalent to US\$100,000; he deposits US\$1000 into his Trading Account as collateral (assumed the leverage is 100 times). If client A has a stop out level of 50%, his position will be closed by KVB when the equity falls below US\$500 (50% of US\$1000). The stop-out level may be changed at any time at KVB's absolute discretion and without prior notice.

Therefore, clients are advised to keep sufficient collateral in their Trading Accounts to cover their Margined Foreign Exchange Contract holdings. Otherwise, the positions in the Trading Account will be closed-out by KVB when the margin level falls below the threshold percentage.

3) Risk of Loss Greater than Amount of Margin Deposited

Clients could sustain a loss greater than their initial margin required to establish and maintain their Margin Foreign Exchange Contract position. They could also be required to pay further funds representing losses and other fees on the open and closed Margin Foreign Exchange Contract positions. For example, if the initial margin payable at the time a Margin Foreign Exchange Contracts is established in respect of AUD/USD is USD1,000 and the market moves against the client's position, the client could lose much more than the initial USD1,000 deposited to open the position. Please refer below for a description of some events that may cause such losses.

4) System Disruption

The ability to trade Margin Foreign Exchange Contracts smoothly depends on the continued operation of the online

platform, and the internet connection and personal computer(s) that are used to access it. A failed operation of any of the above elements will result in delays or failures to place orders and trade Margin Foreign Exchange Contracts. KVB makes every endeavour to ensure system stability but can not take any responsibility for financial losses resulting from any of the above mentioned events. Clients should contact KVB immediately for assistance should they encounter any problems affecting their online trading activities.

5) No Guaranteed Orders

Stop-loss orders and limit orders may not be accepted, or may be executed at a different price to the one specified by the client if the price of the Margin Foreign Exchange Contracts moves suddenly. In this case any loss that yields from this investment maybe higher than the clients expectations.

6) Liquidity

Under certain conditions it may become difficult or impossible for clients to close out their position(s). This can occur when there is a significant change in the price of the underlying currency over a short period of time. Some International markets may have a lower trading volume than other more liquid international markets, which may increase the risk that the liquidity of a currency is decreased or removed from the market.

7) Deregulated Market

While CFDs allow clients to take a position in relation to the Margin Foreign Exchange Contracts, this product is not regulated by any exchange, and therefore does not provide the holder with any of the protections currently available to transactions made traditionally in those markets.

8) General Market and Interest Rate Risk

Currencies, swap points, interest rates and the value of the underlying Margin Foreign Exchange Contract can go up or go down. If the swap points increases at the time when a client holds a position, they will incur a higher financial expense. In addition, other factors such as economic cycles, the profitability of companies and different market sectors, business confidence and government policies can also affect both the currency performance and interest rate movement.

9) Foreign Exchange Exposure

When you deal in a Margin Foreign Exchange Contract that is denominated in a currency other than the denominated currency of your Trading Account, all initial margin, profits, losses, credits and debits in relation to that Margin Foreign Exchange Contracts are calculated using the currency in which the account is denominated.

Accordingly, your profits and losses may be affected by fluctuations in the relevant exchange rate between the time the transaction is entered and the time the relevant conversion of currencies occur. The foreign exchange

market can change rapidly and the client will be exposed to foreign exchange rate volatility during the term of the Margin Foreign Exchange Contracts.

10) Changes in Government Policies

Changes in law, including changes in taxation and regulatory laws, practices and policies, may adversely affect the performance of Margin Foreign Exchange Contracts. Clients are required to seek professional advice with respect to their own tax profile and any laws that may be applicable to them.

11) Ethical Considerations

Labour standards or environmental, social or ethical considerations are not taken into account by KVB Kunlun New Zealand Limited when making, holding, varying or ending Margin Foreign Exchange Contracts.

12) Anti-Money Laundering and Counter-Terrorism Financing

KVB Kunlun New Zealand Limited is subject to Anti-money Laundering and Counter-Terrorism Financing regulations. In making an application pursuant to this PDS you consent to KVB Kunlun New Zealand Limited disclosing in connection with the laws, any of your personal information (as defined in the Privacy Act 1993) and the details of any transaction to any outside Regulatory Authority as required by Law.

In certain circumstances we may be obliged to freeze or block an account where it is being used in connection with illegal activities or suspected illegal activities. Freezing or blocking can arise as a result of the account monitoring that is required by the AML/CTF Laws.

11. Currency of this PDS

The information in this PDS is up to date at the time it was prepared but is subject to change from time to time. If the new Information is materially adverse information, we will either issue a new PDS or a supplementary PDS with the new information. If the new information is not materially adverse to you, we will not issue a new PDS or a supplementary PDS to you, but you will be able to find the updated information on our website at www.kvbkunlun.com, or by calling us using the contact details at the front of this PDS.