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New Zealand**

COMBINED FINANCIAL SERVICES GUIDE AND PRODUCT DISCLOSURE STATEMENT

PART 1

Issuer: Velocity Trade Limited
Company Registration Number 1943456
ARBN 131 876 698
AFSL No. 329813

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This Combined Financial Services Guide and Product Disclosure Statement
("Combined FSG and PDS") is in two Parts:

- Part 1 includes the Financial Services Guide and Product Disclosure Statement and also provides general information about Velocity Trade and your relationship with us.
- Part 2 contains information about foreign exchange contracts offered by Velocity Trade and significant risks.

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FINANCIAL SERVICES GUIDE

A GUIDE TO OUR RELATIONSHIP WITH YOU AND OTHERS

PURPOSE OF THIS FINANCIAL SERVICES GUIDE

The purpose of this Financial Services Guide (“FSG”) is to inform you of the financial services we offer to help you decide whether to use these services. This FSG provides you with key information about the type of financial services that we offer to ensure that you receive the information you need to assist you in making an informed decision about whether you wish to use the financial services that are offered by Velocity Trade Limited (“Velocity Trade”, “we”, “our” or “us”).

If you would like further information, please ask us. Further detail about our services and the products we offer is also available on our website at www.velocitytrade.co.nz.

New Zealand residents are advised that client disclosure requirements for investment advisers are set out in Part 4 of the Securities Markets Act 1988 (*New Zealand*). If you are a New Zealand resident, you have a right under that Act to receive a disclosure statement from any person giving you investment advice in relation to any Tenor FX Transaction, which will include information about:

- the experience and qualifications of the person giving you investment advice;
- any criminal convictions which that person has;
- the nature and level of fees that you will be charged;
- where we share fees which we receive from you with third parties, who those third parties are and on what basis fees are shared; and
- the types of FX Transactions on which the person will provide you with advice.

The terms “FX Transaction” and “Tenor FX Transaction” are defined in the Product Disclosure Statement later in this document. Nothing in this Combined FSG and PDS shall constitute an offer, or a commitment to enter into, any FX Transaction with you.

THIS GUIDE CONTAINS IMPORTANT INFORMATION ABOUT:

- who we are;
- the services and products we offer;
- the costs, remuneration and other benefits that may be paid to us, our employees or others;
- any associations or relationships we may have with financial product issuers;
- our internal and external dispute resolution procedures and how you can access them if you have a complaint against us; and
- how you can contact us.

In general, we will **not** provide you with personal advice. Personal advice is advice that takes into account one or more of your objectives, financial situation and needs or advice which could reasonably be regarded as having done so. General advice is advice which is not personal advice. However, in limited circumstances we may provide personal advice. In such circumstances, we will give you a Statement of Advice (“SoA”) or a Statement of Additional Advice (“SoAA”) or a Record of Advice (“RoA”).

Where personal advice is given, the SoA/SoAA provided will contain the advice, the basis on which it is given and other information such as our fees and any associations we have with financial product issuers or other parties which may have influenced the advice.

You will not receive a SoA or SoAA where:

- we only provide you with general advice;
- we give you further personal advice (after the initial personal advice) and your relevant personal circumstances are not significantly different from your relevant personal circumstances in our previous SoA or SoAA. In such cases the details of such personal advice will be documented in a RoA. You may request a copy of the RoA within 7 years of the advice being given. Such request may be made by contacting us by any of the means identified on the last page of the Combined FSG and PDS; or
- you have elected not to provide us with sufficient information concerning your personal objectives, financial situation and needs, and have acknowledged to us that only general advice will be provided to you. In situations where only general advice has been provided, you must ensure that the advice is appropriate for you considering your personal objectives, financial situation and needs.

This document also includes a **Product Disclosure Statement** (“PDS”) which has been prepared by us and contains information about the particular products we offer, including any relevant terms, significant risks and details of other fees and charges which may apply. The PDS will assist you in making an informed decision about the products offered by us. This Combined FSG and PDS does not constitute a recommendation or opinion that the FX Transactions are appropriate for you.

ABOUT VELOCITY TRADE

Velocity Trade is a New Zealand incorporated company founded in 2007 by a group of experienced financial markets participants. These partners bring extensive experience to the company.

We provide you with various trading services (and/or systems), support features and resources enabling clients to trade in various financial products, each of which is described in this Combined FSG and PDS. All communication touch points are available such as telephone, email, fax, SMS, chat sessions, text and online trading systems. Velocity Trade provides clients with direct access to our system to enable

them to buy and sell various financial products. In addition, Velocity Trade (trading as Velocity TradeGT) also provides global money transfer services.

Our mission is to provide clients with access to the global markets by offering world-class trading services and direct easy access. With the global experience of the Velocity Trade team, we aim to provide a well respected online trading platform through which we offer:

- Competitive, live pricing;
- Up-to-date research and market commentary; and
- World-class trading services.

Velocity Trade is regulated in New Zealand by the Securities Commission and in Australia by the Australian Securities and Investments Commission.

THE FINANCIAL SERVICES WE ARE AUTHORISED TO PROVIDE AND THE KINDS OF FINANCIAL PRODUCTS TO WHICH THOSE SERVICES RELATE

Velocity Trade holds an Australian Financial Services Licence (“AFS Licence”) and is authorised by that AFS Licence to provide the following financial services to retail and wholesale clients:

- Provide financial product advice with respect to derivatives and foreign exchange contracts;
- Deal in derivatives and foreign exchange contracts; and
- Make a market in derivatives and foreign exchange contracts.

Velocity Trade is authorised to deal in specified futures contracts by the New Zealand Securities Commission (“NZSC”) upon publication of The Futures Dealers (Velocity Trade Limited) Authorisation Notice in the New Zealand Gazette. The NZSC’s role in authorising futures dealers is limited and does not imply approval or endorsement of the business, trading or solvency of Velocity Trade. The NZSC has not approved any agreements or any disclosure documents of Velocity Trade. This Combined FSG and PDS is a disclosure document for the purposes of The Futures Dealers (Velocity Trade Limited) Authorisation Notice.

WHO IS RESPONSIBLE FOR THE FINANCIAL SERVICES PROVIDED?

Velocity Trade is responsible for the financial services provided, including the distribution of this FSG.

Velocity Trade may, but is not obliged to, send a daily report by electronic mail to you (in addition to deal confirmations generated in respect of FX Transactions you enter into). Clients entering into Margin FX Transactions also have access to real time statements available through their online account.

More information about Velocity Trade is contained in our financial statements. A copy of our latest financial statements is available free of charge; and may be obtained by writing to Velocity Trade. Our contact details are set out on the last page.

OTHER DOCUMENTS YOU NEED

You must carefully read the PDS and the Client Agreement (a copy of the Client Agreement can be downloaded from our website at www.velocitytrade.co.nz which sets out the contractual relationship between Velocity Trade and the client and the obligations of each when accessing and trading on the system. You must confirm via the website that you accept the terms and conditions set out in the Client Agreement before you can trade with us. These documents contain important information about the financial services and products we offer, including information about the associated risks and costs and details of other fees and charges which may apply. The PDS is provided to assist you in making an informed decision about the product. The Client Agreement sets out the basis of our ongoing relationship with you including the basis

upon which transactions will take place and the obligations of both Velocity Trade and the client.

WHO WE ACT FOR

Velocity Trade acts as principal and not as your agent or broker. When we receive your instructions and execute them, we are the party to the other side of the transaction and the party with whom you are entering a contract.

THE NATURE OF THE ADVICE

Velocity Trade will only provide general advice regarding financial products that you can acquire through us. This information or advice will not take into consideration your particular objectives, financial situation or needs. These issues should be considered by you before making any investment decision on the basis of any information or general advice that we provide to you.

Under the law governing financial services in Australia, general advice has a defined meaning which may be different to what you understand or expect general advice to mean. In the context of the provision of financial services, general advice can include information or an opinion about the financial products and the markets but general advice does not include any direct or implied recommendation that the financial products referred to are appropriate to your particular objectives, financial situation or needs.

We recommend that you take all reasonable steps to fully understand the possible outcomes of trades and strategies in relation to utilising the Velocity Trade trading platform.

HOW YOU CAN GIVE US INSTRUCTIONS

You can instruct us in the following ways:

- ❑ Electronically through our internet online trading platform to which you will be granted access;
- ❑ By telephone; or
- ❑ In limited circumstances (and only where agreed between us) by SMS, chat session, fax or email if we have verified your details (such as username, address and signature). It is your responsibility to ensure that instructions sent by you have in fact been received by us.

Prior to accepting your instructions, Velocity Trade will require you to acknowledge that you accept the terms and conditions of our Client Agreement. You are deemed to accept the terms and conditions of the Client Agreement when you sign up with Velocity Trade to trade with us (refer Part 1 Section 7 for more information about accepting the terms of the Client Agreement). Velocity Trade reserves the right not to accept instructions in any of the ways described above where we can not verify the identity of the client.

You may enquire as any of the financial services we provide, or any FX Transaction, by telephone, facsimile, email or letter to your client sales executive at:

Client Sales Executive
Level 8, Phillips Fox Tower
209 Queen Street, Auckland
New Zealand
ph: +64 0800 872 3464

HOW TRANSACTIONS ARE CONFIRMED TO YOU

Velocity Trade will maintain accurate records (on a best endeavours basis) of all client orders and trades executed. Velocity Trade will provide you with documentation or access to information confirming the transactions you have executed. Confirmations are provided online and you can access your accounts at any time to view your transactions and account balances. Records will be maintained for 7 years.

You must review any confirmation or statement we send to you immediately upon receipt to ensure its accuracy and report any discrepancies to us.

HOW YOUR PERSONAL INFORMATION IS DEALT WITH

Please read the privacy statement (“Privacy Statement”) below. This Privacy Statement sets out how Velocity Trade may collect, use or disclose information about you when you interact with Velocity Trade and your associated rights. By signing the Application Form or selecting ‘accept/agree’ online, you consent to the matters outlined in the Privacy Statement.

Personal Information

If you complete the Application Form, trade online with us, or communicate with us (including by using our website, speaking to us on the telephone or sending us correspondence or information by post or email to us), you will be supplying Velocity Trade (of Level 8, Phillips Fox Tower, 209 Queen Street, Auckland 1141 New Zealand) with, and Velocity Trade will be collecting, information that is “Personal Information” which we will deal with in accordance with the Privacy Act 1993 (*New Zealand*) (‘the Privacy Act’).

Collection and disclosure of Personal Information

We may collect and use your Personal Information for the following purposes:

- assessing your application;
- assessing the credit and other exposure that Velocity Trade has to you (see below for more details regarding the use of your Personal Information for credit checking purposes);
- marketing of similar products and services;

- determining future product and business strategies and to develop Velocity Trade's products and services;
- communicating with you in relation to Velocity Trade's products and services including in relation to any Transaction and/or your Account;
- providing products and services to you; and
- Velocity Trade's hedging arrangements or transactions with hedging counterparties.

When we communicate with you for the above purposes, you consent to receiving communications from us in any form, including by email.

Your Personal Information may be disclosed to entities associated with Velocity Trade, Velocity Trade's counterparties or third party product or service providers for the above purposes. It may also be disclosed to any financial institution nominated by you and may be disclosed to your financial adviser if you request so in writing.

We will not disclose your Personal Information to any other third party except where required to or permitted to by law, where you have authorised us to do so, or where disclosure is connected to the purposes for which the information was collected.

You can, by contacting us, instruct us not to disclose Personal Information to companies related to us.

If you do not wish to be kept informed of Velocity Trade's marketing or promotional activities electronically, please contact us via email. We do not sell Personal Information to other organisations.

While the information we ask you to supply is not required by law, we may not be able to assess your application if the information is not supplied.

Credit Checks

Velocity Trade may provide Personal Information that you provide to us to one or more third-party credit reporting agencies to conduct a credit check on you which will be used for the purposes of determining your credit worthiness. As a result of Velocity Trade's enquiry to credit reporting agencies:

- Credit reporting agencies may provide Velocity Trade with information, including Personal Information, about you;
- Velocity Trade may provide Personal Information to the credit reporting agencies and the credit reporting agencies will hold the Personal Information on their systems and use it to provide their credit reporting service, which may include providing the Personal Information to third parties that may use the credit reporting agencies' services; and
- Velocity Trade may use one or more credit reporting agencies' services in the future for purposes related to the provision of Velocity Trade's services to you. This may include using that/those credit reporting agencies' monitoring services to receive updates if any of the information held about you changes.

If you fail to perform your obligations under the Client Agreement or any transaction, information about that default may be given to one or more credit reporting agencies,

and the credit reporting agencies may give information about your default to other customers of that/those credit reporting agencies.

Velocity Trade will not provide any credit reporting agencies with information regarding the specific FX Transactions that you enter into.

Website

When you visit our website, we (or our service providers in connection with the website) may use technology to collect information to assist us with administering the website and with enhancing the content and facilities on the website. An example of the technology that we use is “cookies”.

A “cookie” is a packet of information placed on a user's computer by a website. The purposes for which cookies are used on this website may include:

- enabling access to online services;
- managing advertising - we may use advertising companies to deliver our online advertising. When you see one of our ads on a third party website, cookies are sometimes used to collect information about what pages you visit and the type of software you are using; and
- monitoring web traffic - we may use tracking companies to gather information about how people are using the Velocity Trade website, this information includes time of visit, pages visited, and some system information about the type of computer you are using.

You can configure your browser to accept all cookies, reject all cookies, or notify you when a cookie is sent. Each browser is different, so check the "Help" menu of your browser to learn how to change your cookie preferences.

If you disable the use of cookies on your web browser or remove or reject specific cookies from this website or linked websites then you may not be able to gain access to all of the content and facilities on this website.

Your rights

Under the Privacy Act, you have rights to access, correct, alter or delete the Personal Information we hold about you.

You can contact us by phone, fax or email to request access to your information. In normal circumstances, we will give you full access to your information. However, there may be some legal or administrative reason to deny you access, in which case we will tell you of that reason. Further, we may impose a charge to give you full access where your request requires the compilation of information that has been archived or is significant in volume.

If you have any concerns about the accuracy of your Personal Information, please contact us.

Your Personal Information will be held by us at Velocity Trade's offices, Level 8, Phillips Fox Tower, 209 Queen Street, Auckland 1141, New Zealand. Your Personal Information will be retained only for as long as necessary to fulfil the purposes for which it was collected.

If you have any questions about this Privacy Statement or requests relating to your Personal Information, please contact our Privacy Officer by emailing Privacy@VelocityTrade.co.nz, by phoning 64 9918 8800, or by sending a fax to 64 9309 6283.

In accordance with the Anti-Money Laundering and Counter-Terrorism Act 2006 (*Commonwealth of Australia*), Velocity Trade has an obligation to collect information about and verify the identity of its clients. This information is referred to as Know Your Client information or KYC information. Velocity Trade will carry out its customer identification and verification procedures in accordance with the Privacy Act 1988 (*Commonwealth of Australia*).

HOW WE ARE REMUNERATED FOR THE SERVICES WE PROVIDE

Velocity Trade does not generally charge its clients commission (brokerage) to transact. However, in the event that our model changes, all clients will be notified. Instead, Velocity Trade earns its income through the following sources:

- (a) The application of a margin to the 'inter-bank' rate at which we can open or close a transaction (or re-establish a transaction) with our hedging counterparties (liquidity providers) i.e. Velocity Trade may derive a financial benefit by entering into other transactions with other counterparties (liquidity providers) at different rates from those quoted to its client(s).
- (b) Velocity Trade is reimbursed an amount of income from its hedging counterparties, which is based upon the volume of transactions executed with that counterparty.
- (c) Velocity Trade receives income when a margin foreign exchange transaction is rolled, being the cost/benefit to the client over and above the cost/benefit to Velocity Trade of re-establishing a transaction at close of business (5.00pm New York unless otherwise advised), in the wholesale market.
- (d) Velocity Trade may be reimbursed an amount or may charge a "conversion cost" when converting currencies to the currency in which the client's account is denominated. This occurs each time there is a conversion from trade currency (denominated in the term of the currency pair) to your "account denominated" currency or base currency.
- (e) Velocity Trade places client moneys into our Segregated Funds Account which is a client trust account (refer Part 2 of this Combined FSG and PDS for

additional information). Velocity Trade is entitled to earn any interest on positive balances in the client trust account. Velocity Trade may entirely at its discretion pay to the client all or part of such interest, at such rates and for so long as it chooses i.e. it is at the sole discretion of Velocity Trade as to whether it passes on any interest it receives to the client.

If any of the client's denominated currency account balances becomes a debit i.e. negative, the interest rate charged on each debit currency balance will be at Velocity Trade's prevailing rate for such currency (accruing daily), which changes according to market conditions.

- (f) Velocity Trade may in exceptional circumstances charge a fee for the provision of services over and above the usual level of service provided to Clients for transactions. Our fees vary depending on various factors (such as, but not limited to, the type/level of service required and the frequency and volume of transactions). Each transaction may incur a flat fee of between A\$100 to A\$200 (or NZ\$ equivalent) at Velocity Trade's discretion. These fees will be disclosed to you prior to transacting with you and may change from time to time. Please consult with your Velocity Trade representative.

The sources of income described in (a), (b) and (c) above are factored into the prices quoted to clients (i.e. they are not an additional charge to the client).

A full description of the amounts we charge and when they will be charged can be found in the Client Agreement and on our website at www.velocitytrade.co.nz. In addition, Velocity Trade may deal with introducing brokers who may request that Velocity Trade collect fees from you on their behalf. You agree that we may collect those fees from you.

Where you enter a margin fx transaction with us you will be required to pay a Margin Requirement and maintain a minimum Free Margin. You may also be required to pay additional margin, in the event of adverse market movements against your position(s). Such payments are not costs but are funds required by Velocity Trade to cover our risk and as security for the client's obligations.

The margin amounts are payable into the Velocity Trade's Segregated Funds Account which is a client trust account and are held, used and withdrawn in accordance with the Corporations Act 2001 (*Commonwealth of Australia*) ("Corporations Act"), the Futures Industry (Client Funds) Regulations 1990 (*New Zealand*) ("Client Funds Regulations") and the Client Agreement. All interest that may accrue on the Segregated Funds Account is generally kept by Velocity Trade.

HOW OUR EMPLOYEES ARE RENUMERATED

Employees are paid by way of salary and bonus linked to performance. Bonuses are discretionary and are based on achievement of pre-determined objectives.

Our employees may also qualify for non-monetary benefits if they meet performance targets. Incentives may include non-monetary rewards such as sports tickets and attendance at conferences. The type of these benefits will vary depending on particular

circumstances, such as the employee's position and the particular service provided. We maintain a register of any benefits that our representatives receive.

OUR ASSOCIATIONS & RELATIONSHIPS WITH OTHERS

We do not have any relationships or associations with financial product issuers which might influence us in providing you with our financial services. Velocity Trade is the issuer of the financial products it offers.

OUR INSURANCE ARRANGEMENTS

Velocity Trade has professional indemnity ("PI") insurance arrangements in place as required under section 912B of the Corporations Act. Our PI insurance takes into account the nature and volume of our business, the number of clients and kind of clients we have, our representatives and the maximum potential extent of liability.

Our PI insurance also covers claims in relation to the conduct of representatives and employees who no longer work for us but who did at the time of the relevant conduct.

WHAT DO I DO IF I HAVE A COMPLAINT?

We want to know about any problems or concerns you may have with our advice or services so we can take steps to resolve the issue. We have internal and external dispute resolution procedures to resolve complaints from clients. A copy of these procedures may be obtained by contacting us and requesting a copy.

Initially, all complaints will be handled and investigated internally. Should you still feel dissatisfied with the outcome, you have the ability to escalate your concerns to an external body for a resolution.

If you have a complaint about the financial services provided to you or any FX Transaction, please take the following steps:

1. Contact Velocity Trade to inform us about your complaint. You may do this by telephone, facsimile, email or letter to the Complaints Officer at:

Complaints Officer
Level 8, Phillips Fox Tower
209 Queen Street, Auckland
New Zealand
ph: +64 0800 872 3464

We will investigate your complaint promptly. We will try to resolve your complaint quickly and fairly.

2. If you are an Australian investor and are dissatisfied with the outcome of our investigation, you have the right to complain to the Australian Financial Ombudsman Service Limited ("FOS") who may be contacted on 1300 780 808 or in writing at G.P.O. Box 3, Melbourne VIC 3001.

Velocity Trade is a member of this complaints resolution scheme and our membership number is 13320. In order for a complaint to be considered by FOS, the claim must be no more than A\$280,000.

You can contact the Australian Securities and Investments Commission in Australia on 1300 300 630. This is a Freecall Infoline. This is another alternative that you may use to make a complaint and obtain information about your rights.

PRODUCT DISCLOSURE STATEMENT

1. Introduction

Velocity Trade Limited (ARBN 131 876 698) is the issuer of this Combined FSG and PDS and the issuer of the Over the Counter (“OTC”) contracts for derivatives and foreign exchange products referred to in this Combined FSG and PDS (“**our financial products**”).

The information in this Combined FSG and PDS is general information only and does not take into account your personal objectives, financial situation and needs. **We recommend that you obtain independent financial, legal, taxation and other professional advice that you require before you acquire our financial products.** Before making a decision to acquire our financial products you should read this Part 1 of the Combined FSG and PDS, the terms of the Client Agreement together with any other Part that relates to financial products you are considering dealing in and be satisfied that any trading you undertake in relation to those products is appropriate in view of your objectives, financial situation and needs. If you wish to acquire any of our financial products you are required to agree to the terms of the Client Agreement.

Purpose of PDS

Under the Corporations Act, a retail client must receive a PDS from an AFS Licensee before acquiring a financial product. The PDS is the document that sets out the significant features of a financial product, including its risks, benefits, costs and fees and other related information. The purpose of this PDS is to provide you with sufficient information to make an informed decision in relation to the acquisition of our financial products. You may also use this PDS to compare the financial products described with other issuers of similar products.

This Combined FSG and PDS seeks to explain to you our financial products in a clear, concise and effective manner. When we use the terms “Velocity Trade”, “we”, “our” or “us” in this PDS the reference is to Velocity Trade Limited, the issuer of the OTC contracts. When we use the term “you” we mean you as the acquirer of our financial products. When we refer to “client” we mean you or another acquirer of our financial products as applicable.

This Combined FSG and PDS is an important document and provides you with key information about our financial products.

OTC contracts can be highly leveraged and speculative with a high degree of risk. Potential investors should be experienced in foreign exchange contracts and derivative products or understand and accept the risks of investing in OTC contracts.

Before trading in the products referred to in this Combined FSG and PDS you should give consideration to your objectives, financial situation and needs. We recommend that

you take all reasonable steps to fully understand the possible outcomes of trades and strategies in relation to the products offered. You should also be aware of the risks involved and be satisfied that trading in our products is suitable for you in view of your financial circumstances.

If you have any questions in relation to this PDS, please do not hesitate to contact us through the contact details on the last page of this Combined FSG and PDS.

Electronic FSG and PDS

This Combined FSG and PDS may be viewed online on Velocity Trade's website at www.velocitytrade.co.nz. If you access the electronic version you should ensure that you download and read the entire Combined FSG and PDS. A paper copy of the Combined FSG and PDS is available free of charge to any person in Australia or New Zealand by telephoning Velocity Trade on +64 9 918 8800.

Other Jurisdictions

The offer to which this Combined FSG and PDS relates is available only to persons receiving the Combined FSG and PDS in Australia or New Zealand. This Combined FSG and PDS does not constitute an offer or invitation in any place which, or to any person to whom, it would not be lawful to make such an offer or invitation. The distribution of this Combined FSG and PDS in jurisdictions outside Australia or New Zealand may be restricted by law and persons who come into possession of it who are not in Australia or New Zealand (as the case may be) should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

Changes

The information in this Combined FSG and PDS is subject to change from time to time and is up to date as at the date of this document.

Australian Investors: If any new information is materially adverse information, we will issue a new or supplementary Combined FSG and PDS with the new information. If the new information is not materially adverse to you, you will be able to find the updated information on our website at www.velocitytrade.co.nz, or by contacting us.

Our contact details are set out on page the last page of this Combined FSG and PDS. If you ask us, we will send you a paper copy of the information.

New Zealand Investors: We will issue a new or supplementary Combined FSG and PDS by posting an amended Combined FSG and PDS to our website at www.velocitytrade.co.nz. We may also, at our discretion, send notice of the new or supplementary Combined FSG and PDS to you by email or by post. When the new or supplementary Combined FSG and PDS is posted on our website, it will be deemed to have been made available to you as at the time it was posted on our website.

2. Issuer Details

Velocity Trade is required to give you this PDS because it is the issuer of the financial products described in this Combined FSG and PDS.

Our contact details are set out on the last page of this Combined FSG and PDS.

3. What Products does this Combined FSG and PDS cover?

This is a PDS for derivatives and foreign exchange products provided by Velocity Trade. These are OTC contracts.

Foreign exchange is essentially exchanging one currency for another. The exchange rate is the price of one currency in terms of another currency such as the price of the Australian dollar in terms of the US dollar. For example, if the current exchange rate for the Australian dollar as against the US dollar is AUD/USD 0.8600, this means that one Australian dollar is equal to, or can be exchanged for, 86 US cents.

The amounts payable by you to Velocity Trade under an FX Transaction are:

1. Amounts by way of margin (in the case of Margin FX Transactions) or part payment (in the case of Tenor FX Transactions);
2. The currency to be delivered under the FX Transaction (unless cash settled);
3. Premium (in the case of Option FX Contracts); and
4. such other sums as may from time to time be due to Velocity Trade under the Client Agreement, including fees, commissions, charges, and indemnified costs and losses.

Where you fail to pay such amounts when due, Velocity Trade shall be entitled (subject to any applicable notice periods under the Client Agreement) terminate and close out any or all FX Transactions with you.

Not all of Velocity Trade products result in the physical delivery of the currency, including some products which are deemed to be foreign exchange contracts.

Some of the products are cash adjusted or closed out by the client taking an offsetting position i.e. there is not a physical exchange of one currency for another. Positions will always be closed out and the client's account will be either credited or debited according to the profit or loss of the trade. Should a transaction be held to expiry i.e. the nominated forward date then it will be cash settled according to the closing price of that currency, as quoted by Velocity Trade, on that particular day.

Our foreign exchange products ("FX Transactions") are as follows:

1. Spot FX Transactions
2. Margin FX Transactions

3. Forward FX Contracts (called Tenor FX Transactions in the Client Agreement)
4. Option FX Contracts (called Tenor FX Transactions in the Client Agreement)

Each transaction which is agreed and entered into by us with a client will be entered into as principal. Velocity Trade makes a market in its products as it regularly states the price at which it is prepared to deal with the client as principal.

When trading Velocity Trade products you should be aware of the risks and benefits and review examples of how the Velocity Trade products can be traded. For further information about the significant features, benefits, costs and risks associated with foreign exchange products, see Part 2 of this Combined FSG and PDS.

Further information about Velocity Trade's financial services and products is also available on our website www.velocitytrade.co.nz, or by contacting us. Our contact details are set out on the last page of this Combined FSG and PDS. Nothing in this Combined FSG and PDS shall constitute an offer, or a commitment to enter into, any FX Transaction with you.

4. Purpose of Velocity Trade Products

For information about the purpose of the foreign exchange products offered by Velocity Trade, see Part 2 of this Combined FSG and PDS.

5. How are the Velocity Trade Products Traded?

Clients primarily transact using an online trading platform provided by Velocity Trade. Accordingly, clients are provided with direct access to our quoted prices over the internet. We refer you to our website www.velocitytrade.co.nz for examples of how the Velocity Trade products can be traded.

In addition, we refer you to page 7 of this Combined FSG and PDS which describe other ways in which you can give us instructions to trade.

6. Margin Obligations

Only Margin FX Transactions will be subject to margin obligations (i.e. clients must deposit from time to time funds for security / margining purposes), Spot FX Transactions are not margined.

For additional information with respect to Margin Requirements and the minimum required Free Margin we refer to the Client Agreement (and in particular, Schedule 1: Margin FX and the MarginFX Addendum – Margin Requirements).

6.1 Margin Requirements

When you enter into a Margin FX Transaction, and while that transaction remains open, you will be required to pay Velocity Trade an amount we refer to as the

‘Margin Requirement’. This is also commonly referred to as an initial margin. This amount represents collateral for your exposure under the Margin FX Transaction and covers the risk to Velocity Trade. Typically, the Margin Requirement will be an amount approximately equal to 2% of the face value of your open Margin FX Transactions (however, this percentage requirement may change at any time and at the discretion of Velocity Trade and you should refer to the Rates Schedule on our website to confirm the actual percentage requirement for your Margin FX Transactions). Lodgement of the Margin Requirement is necessary before you can commence trading.

Changes in the Margin Requirement during the period the transaction remains open is often called variation margin. We call it Margin Requirement. The amount of your Margin Requirement at any one time will be displayed on the trading platform. Velocity Trade will automatically, without requiring further instruction from you, apply funds that you have deposited with Velocity Trade to meet your Margin Requirement in the event of adverse market movements to keep the position open. For this reason, you must ensure that you have sufficient funds on deposit with Velocity Trade to meet your changing Margin Requirement. The method of calculating the Margin Requirement is set out in the MarginFX Addendum to the Client Agreement and is specific to Margin FX Transactions entered into by way of a given Electronic Trading Platform. As at the date of this Combined FSG and PDS:

LFX Trader Pro Platform: The Margin Requirement is the total value of all outstanding Margin FX Transactions entered into on LFX Trader Pro, calculated by Velocity Trade in its sole discretion (being the sum of each nominal position in a currency of each outstanding Margin FX Transaction entered into on LFX Trader Pro, converted, where necessary, to the client base currency at the Velocity Trade exchange rate at that time), *multiplied* by the percentage specified with respect to MarginFX Transactions entered into on LFX Trader Pro by Velocity Trade in the Rates Schedule.

MT4 Trader Platform: The Margin Requirement is:

- (i) the total value of all outstanding Margin FX Transactions entered into on MT4 Trader, calculated by Velocity Trade in its sole discretion (being the sum of each nominal position in a currency of each outstanding Margin FX Transaction entered into on MT4 Trader, converted, where necessary, to the client base currency at the Velocity Trade exchange rate at that time and excluding nominal positions of two MarginFX Transactions entered into on MT4 Trader where the Client is the buyer of one currency pair in one transaction and the seller of the same currency pair in the other, for the same nominal value), multiplied by the percentage representing the level of leverage the Client has chosen in respect of MarginFX Transactions entered into on MT4 Trader, ranging between 1% to 100%; and
- (ii) sufficient to ensure a “margin level” of greater than 105%, where “margin level” means the Margin Requirement referred to in (i) plus Free Margin (being the updated balance of cleared funds in the Client’s Margin FX

Account, increased or decreased by the Client's aggregate unrealised profit or loss, as the case may be) divided by that Margin Requirement and multiplied by 100 (expressed as a percentage).

Velocity Trade may at any time alter (including increase) the Margin Requirement for your Margin FX Transactions, including any open Margin FX Transactions, without prior notice to you.

If you do not have sufficient funds on deposit to meet your Margin Requirement, Velocity Trade may at any time automatically close out any open Margin FX Transactions.

6.2 Free Margin

The term Free Margin refers to the amount that you have available in your account to meet any increase in your Margin Requirement (without the need for depositing additional funds).

It is your responsibility to maintain sufficient Free Margin to meet your obligations in relation to your Margin FX Transactions.

You should also maintain sufficient Free Margin, to ensure you can continue to meet your obligations should the trading platform become unavailable (this is in addition to maintaining the minimum required Free Margin).

You may request Velocity Trade to withdraw an amount of Free Margin to make a payment to you. Velocity Trade may withhold any such withdrawal if it considers that funds may be required from you to meet any current or future margin call; if you have any contingent liability to Velocity Trade or to any of its associates; if there is an unresolved dispute between Velocity Trade and you; or if necessary or desirable to enable Velocity Trade to comply with applicable law

With respect to the amount of Free Margin required at any particular time we refer you to our website at www.velocitytrade.co.nz, or by contacting us. Our contact details are set out on the last page of this Combined FSG and PDS.

6.3 Notifications regarding Margin Requirement and Free Margin

It is your responsibility to actively monitor and manage your Margin FX Transactions and your obligations, including ensuring that you meet your Margin Requirement and maintain the minimum required Free Margin. It is also your responsibility to ensure you are aware of any changes in the Margin Requirement or the minimum required Free Margin. Velocity Trade is under no obligation to contact you in the event of any change to the Margin Requirement or minimum required Free Margin or any actual or potential shortfalls in your account.

6.4 Ongoing monitoring of Margin Obligations

Open positions will be monitored by Velocity Trade on what is known as a "mark to market" or "MTM" basis to account for any market movements. If the value of the open positions move against you then you will be required to "top up" the

Margin Requirement i.e. pay additional margin or alternatively you may choose to close the open transaction in order to reduce your Margin Requirement to a level acceptable to Velocity Trade.

The currency in which your account is maintained is referred to as the “account currency” and unless otherwise agreed, will be denominated in your local currency. The Margin Requirement, profits, losses and all other variables (such as conversion fees) will be debited or credited to your account in the account currency i.e. in the currency you wish your account to be maintained (in this example, New Zealand dollars).

If you transact Margin FX Transactions in a currency other than the account currency, all Margin Requirements, profits and losses will be converted to the account currency. This is performed automatically. For example, if you execute Margin FX Transactions in USD and your account currency is New Zealand dollars, any Margin Requirement, profit or loss will be converted from USD to New Zealand dollars.

It should also be noted that in conditions of extreme market volatility Velocity Trade reserves the right to increase the minimum level of the initial margin. Current and up to date initial margin levels are available on the website www.velocitytrade.co.nz.

6.5 Failing to meet Margin Obligations

You must be in a position to fund your Margin Requirements and maintain the minimum required Free Margin at all times or your position will be closed out by Velocity Trade. We refer you to our website at www.velocitytrade.co.nz for some examples of how Margin Requirements and the minimum required Free Margin are applied to various trading scenarios.

It is also important to note that Margin Requirements are determined on a per transaction basis i.e. should you have several open Margin FX Transactions, then Margin Requirements are calculated on each exposed position and not netted across the group of open transactions. In other words, the unrealised profits of one transaction can not be used to offset the unrealised losses of another transaction. This may vary dependent on which trading platform you elect to use. Please confirm with us prior to trading.

If you do not ensure you maintain the required level of Margin Requirement and maintain the minimum required Free Margin, some or all of your open Margin FX Transactions may, without prior notice to you, be closed out and the resulting realised loss (or profit) debited (or credited) to your account. Any excess funds remaining to the credit of your accounts will then be returned to you.

If the available funds in your accounts are insufficient to fully satisfy your obligations to Velocity Trade, you will be required to pay the remaining difference, as well as any costs or charges that we incur in recovering the remaining difference from you.

You will only be permitted to deal in and maintain open Margin FX Transactions on the basis of cleared funds being provided to meet your Margin Requirement and to maintain the minimum required Free Margin. It is your responsibility to provide the funds for your margin obligations on time. You should bear in mind accepted Australian and New Zealand banking practice in relation to fund transfers or deposits from other institutions, which typically requires 3 Business Days' clearance for personal cheques and 1 Business Day's clearance for direct non-ASB deposits (depending on the timing of your transfer). Any delay in crediting your margin payments is at your risk.

The margin amounts are payable into the Velocity Trade client trust account and are held, used and withdrawn in accordance with the requirements of the Corporations Act, the Client Funds Regulations and our Client Agreement. All interest that may accrue on the client trust account is kept by Velocity Trade. Such margin amounts may be used or withdrawn to make a payment for, or in connection with, the entering into, margining or settling of FX Transactions by Velocity Trade; to make a payment to you, a liquidity provider (see paragraph 7 below), or another designated third party; to make a payment in respect of withholding tax; to meet the amount of any fees, commissions or other charges properly payable under the Client Agreement; to make a payment to Velocity Trade in reimbursement for any payment made by Velocity Trade to or on behalf of the Client; to withdraw any portion of the funds that is not client money; or where Velocity Trade has deposited its own money into the Segregated Funds Account to cover a shortfall in the Segregated Funds Account, to withdraw that money once it is no longer required to cover the shortfall.

7. Liquidity Buffers

Velocity Trade may enter into hedging transactions with various liquidity providers in order to hedge its exposure under FX Transactions. For these purposes Velocity Trade may withdraw funds from the Velocity Trade bank account where client moneys are held (including the Segregated Funds Account) and deposit those funds in one or more Buffer Accounts. The amount which may be withdrawn is that which Velocity Trade, in its absolute discretion, deems necessary or advisable in order to provide margin and a substantial additional buffer in relation to any transactions it has entered into or may enter into with any hedging counterparty. A Buffer Account is not a trust account or a segregated funds account - any funds in that account may, subject to applicable law, be available to the creditors generally of the account holder.

8. Client Agreement

The Velocity Trade Client Agreement governs the contractual relationship between Velocity Trade and the client. The Client Agreement sets out the basis on which transactions will take place and the obligations of both Velocity Trade and the client when accessing and trading on the trading platform. However, entering into the Client Agreement does not itself constitute a trade or in any way oblige you to enter into future transactions. This is always your decision. You must confirm via the website that you accept the terms and conditions set out in the Client Agreement before you can trade with us.

The Client Agreement is incorporated by reference into this PDS. It may be read on our website www.velocitytrade.co.nz. A printed copy is available upon request to us at no charge.

Under the terms of the Client Agreement, Velocity Trade may automatically close out transactions you have open if you do fail to meet your obligations to Velocity Trade. Your transactions may also be closed out by Velocity Trade upon the occurrence of certain events set out in the Client Agreement. You should ensure you are familiar with the events contained in the Client Agreement that may trigger a close out of your transactions, namely:

- (i) the occurrence of an Event of Default, including (in the case of the Client) breach of its obligations under the Client Agreement, breach of applicable law, inability to perform the Client Agreement, incapacity, inability to contact the Client (for 24 hours or more), bankruptcy, withdrawal of security or (in the case of the Client or Velocity Trade) any material misrepresentation or insolvency event;
- (ii) where Velocity Trade is at any time unable to obtain acceptable wholesale prices or rates from any of its hedging counterparties;
- (iii) if, in the opinion of Velocity Trade, abnormal market conditions exist;
- (iv) if Velocity Trade is requested or required by any public authority to cease or limit carrying on business of dealing in one or more types of FX Transactions;
- (v) any consent, licence or authority that Velocity Trade has obtained from a public authority is rescinded, modified or varied in any material respect; or
- (vi) if at any time it is unlawful or contrary to policy for Velocity Trade to perform its obligations or exercise its rights (under the Client Agreement or any FX Transaction), or for Velocity Trade or any hedging counterparty to comply with its obligations to the other.

Where termination occurs, the relevant FX Transactions are terminated and the net balance payable is determined by Velocity Trade and paid by the relevant party. Velocity Trade may thereafter refuse to enter into further FX Transactions.

If Velocity Trade specifies any further type of Transaction that it may enter into with you or if Velocity Trade otherwise determines (in its sole discretion) that amendments to the Client Agreement are necessary, Velocity Trade may amend the Client Agreement. Any such amendment will be notified to you by way of the Velocity Trade website or each Electronic Trading Platform or electronic mail or such other form of communication as Velocity Trade determines to be appropriate. A copy of the Client Agreement, as amended, will be available on Velocity Trade's website and you will be bound by the amended Client Agreement immediately upon entering into any further Transaction. In addition, Velocity Trade may, in its sole discretion, amend the MarginFX Addendum and the Rates Schedule from time to time by publishing updates on the Velocity Trade website.

9. How do your Orders get Executed and Confirmed?

You must follow the following steps to effect transactions with Velocity Trade:

- (i) Read this Combined FSG and PDS;
- (ii) Read, acknowledge and accept the Client Agreement contained on the website at www.velocitytrade.co.nz;
- (iii) Set up an account with Velocity Trade in accordance with the steps contained on the website at www.velocitytrade.co.nz;
- (iv) Based on the quotations, you will enter into a contract with Velocity Trade using the online trading platform;
- (v) You will receive an electronic confirmation from Velocity Trade (which gives details of the transaction);
- (vi) You can access details of your account any time online.

10. Significant Features of the Velocity Trade Products

For information about the significant features of the foreign exchange products offered by Velocity Trade, see Part 2 of this Combined FSG and PDS.

11. Significant Benefits of the Velocity Trade Products

For information about the significant benefits of the foreign exchange products offered by Velocity Trade, see Part 2 of this Combined FSG and PDS.

12. Significant Risks Explained

You should be aware that trading in the foreign exchange products offered by Velocity Trade involves risks. It is important that you carefully consider whether trading our products is appropriate for you in light of your investment objectives, financial situation and needs.

For information about the significant risks of trading in the foreign exchange products offered by Velocity Trade, see Part 2 of this Combined FSG and PDS.

13. Trading Hours

From Monday to Friday, Velocity Trade operates a 24 hour a day trading platform opening on Monday at 7.00am New Zealand time and closing at 5.00pm New York time Friday (Saturday morning Australian and New Zealand time). This means that you are able to view live prices and place live orders during these hours. Outside these hours, you may still access the trading platform and view your account, market information, research and our other services. However, there will not be any live prices or trading. It is at the sole discretion of Velocity Trade to provide services to you outside these hours.

Any changes to operating hours will be displayed on our website.

14. Taxation Implications

Trading in foreign exchange products offered by Velocity Trade has the potential for generating substantial profits and the potential for generating substantial losses. The tax implications of such profits or losses may be significant depending on the personal circumstances of the individual client. Velocity Trade does not provide tax advice and we recommend you seek your own professional tax advice and the impact any profits or losses generated from trading may have on your overall tax position.

15. Cooling-off Arrangements

There are no cooling-off arrangements for the foreign exchange products offered by Velocity Trade.

This means that when you enter a transaction with Velocity Trade you do not have a right to return the product and you do not have the right to request Velocity Trade to repay the money you have paid to acquire the product. Should you change your mind after entering into a transaction with Velocity Trade, you should close out your position by taking an opposite transaction.

16. What do I do if I have a Complaint?

Please refer to page 12 of this Combined FSG and PDS.

17. Other Available Information

Other information about Velocity Trade may be obtained by accessing our website at www.velocitytrade.co.nz, or by contacting us.

18. How to Contact Us

Please refer to the last page of this Combined FSG and PDS.



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COMBINED FINANCIAL SERVICES GUIDE AND PRODUCT DISCLOSURE STATEMENT

PART 2: FOREIGN EXCHANGE PRODUCTS

Important Notice and Disclaimer from Velocity Trade

Decisions to enter into transactions involving foreign exchange products are very important. They often have significant risks and consequences. Refer to *Significant Risks Explained* for more information about significant risks in trading foreign exchange products.

It is your responsibility to ensure that you fully understand the products, how they are traded and the risks involved.

This Part 2 of the Combined FSG and PDS provides you with some basic information regarding trading foreign exchange products with Velocity Trade Limited (“Velocity Trade”) and certain significant risks. This document may not contain all of the information that you need in order to fully understand the products and the risks.

In preparing this Combined FSG and PDS, we have not considered your personal circumstances. This document only provides a summary of the significant features and risks of foreign exchange products. You should obtain your own legal, financial and taxation advice to ensure that you fully understand foreign exchange products and that they are appropriate for you.

To the extent permitted by law, neither Velocity Trade nor its affiliates accepts any responsibility for errors or misstatements, negligent or otherwise, nor for any direct, indirect, consequential or other loss arising from any use of these documents and or/further communication in relation to them.

Do you have all the relevant documents?

This Combined FSG and PDS is subject to the detailed provisions of the Client Agreement. You must ensure you have read and fully understand the Client Agreement, and both Part 1 and Part 2 of the Combined FSG and PDS before deciding to invest in any foreign exchange product offered by Velocity Trade.

What Products does this Part 2 of the Combined FSG and PDS cover?

It contains information about foreign exchange products offered by Velocity Trade.

We offer the following foreign exchange products:

- (i) **Spot FX Transactions** - A Spot FX Transaction is a currency contract (i.e. a deal to buy or sell a specified volume of a specified currency amount at a specified price) where the value date is in two business days from the date the deal is agreed. Spot FX Transactions are deliverable contracts i.e. they are physically settled by the physical exchange of currencies between you and Velocity Trade in relation to an agreed currency pair on the settlement date for the full contract value.
- (ii) **Margin FX Transactions** - A Margin FX Transaction is a leveraged, rolling spot foreign exchange transaction between you and Velocity Trade in relation to an agreed currency pair. Your Margin FX Transaction may be rolled indefinitely provided that you continue to meet your Margin Requirement and maintain the minimum required Free Margin. Margin FX Transactions are cash-adjusted or cash-settled or closed by the client taking an offsetting opposite position. In other words, The profit or loss of the Margin FX Transaction is either credited or debited to the client's account, there is no exchange of the absolute amount of the Margin FX Transaction by the parties.

Velocity Trade may, on request and subject to a fee, agree to implement a stop loss order or limit order in respect of a Margin FX Transaction. Compliance with any such order is subject to prevailing market conditions.

- (iii) **Forward FX Contracts** (also called Tenor FX Transactions in the Client Agreement)- A forward contract is an agreement to buy or sell a specified amount of a commodity (including foreign exchange) or financial instrument at a fixed price some time in the future.

A forward FX contract offered by Velocity Trade is a currency rate deal where the settlement date is later than two working days after the date of entering the transaction (under the Corporations Act, these products are classified as 'derivatives' but are also deemed for licensing purposes to be foreign exchange contracts). Forward contracts are deliverable unless closed out before the settlement date.

- (iv) **Option FX Contracts** (also called Tenor FX Transactions in the Client Agreement) - A buyer of an option acquires the right, but not the obligation, to buy or sell a specific amount of one currency for another at a predetermined price and date in the future. The client specifies the rate at which they want to purchase or sell the currency ("strike price" or "exercise price") and they determine the period of time for the option to exist ("maturity" or "expiration date").

The client is required to pay an amount ("premium") to Velocity Trade. Paying the premium allows the client to keep the option until its maturity date, to close

it out by selling it at any given point of time prior to its maturity or, subject to the terms of the option, to exercise it early.

Velocity Trade determines the amount of the premium at which we are willing to grant the option, based on current rates, nominated delivery and expiry date, the nominated strike rate and option style. Clients can only sell options to close out an open position i.e. clients are not permitted to grant or write options unless part of a tailored structured product and with the prior approval of Velocity Trade.

Options traded with Velocity Trade may be exercised at any time before the expiry date which results in cash adjustment between the strike price and the current market price as determined by Velocity Trade.

Each transaction in any of the above products which is agreed and entered into with a client will be entered into as principal. Velocity Trade makes a market in its products as it regularly states the price at which it is prepared to deal with the client as principal.

The products offered by Velocity Trade are Over the Counter (“OTC”) contracts.

Purpose of Velocity Trade Products

Foreign exchange exposures may arise from a number of different activities. A person migrating to another country (or purchasing an asset overseas, such as property) has the risk that if that country's currency appreciates against their own, their conversion costs will be greater or they may receive less funds. An exporter who sells its product in foreign currency has the risk that if the value of that foreign currency falls then the revenues in the exporter's home currency will be lower. An importer who buys goods priced in foreign currency has the risk that the foreign currency will appreciate thereby making the cost, in local currency terms, greater than expected.

In each of the above examples, the person or the company is exposed to currency risk.

Currency risk is the risk that arises from international travelling or business which may be adversely affected by fluctuations in exchange rates. Velocity Trade offers its clients the facility to buy or sell foreign exchange products to manage this risk.

This enables clients to protect themselves against adverse currency swings, yet secure enhanced exchange rates when offered, thereby protecting the profit margin made by the corporate during the business transaction relating to the foreign currency trade or protecting the cost of the client's international holiday in the case of the traveller. This is commonly referred to as a hedge transaction.

In addition to using foreign exchange products as a risk management tool, clients can benefit by using some of the products offered by Velocity Trade to speculate on changing exchange rate movements. You may take a view of a particular market or the markets in general and therefore invest in our products according to this belief in anticipation of making a profit.

Key Features of Foreign Exchange Products

A foreign exchange contract is an agreement between two parties to exchange one currency for another currency at an agreed exchange rate on a predetermined date (being the 'value date' or 'settlement date' of the contract), where the date may range from either the same day or be a forward date.

Foreign exchange products are available in most currencies. Foreign exchange is essentially about exchanging one currency for another at an agreed rate. Accordingly, in every exchange rate quotation, there are two currencies.

The exchange rate is the price of one currency (the "base" currency) in terms of another currency (the "terms" currency) such as the price of the Australian dollar in terms of the US dollar. For example, if the current exchange rate for the Australian dollar as against the US dollar is AUD/USD 0.8600, this means that one Australian dollar is equal to, or can be exchanged for 86 US cents.

Unlike foreign exchange contracts traded on an exchange, OTC foreign exchange contracts are not standardised but are individually tailored to the particular requirements of the parties involved in the contract (i.e. Velocity Trade and the client.).

The terms involved in the negotiation of the contract are:

- (a) the currencies to be traded;
- (b) the amount of such currencies;
- (c) the maturity date of the contract; and
- (d) the rate at which such currencies are to be exchanged.

Other than Margin FX Transactions, contracts generally mature on an agreed value date (which can be any business day acceptable to the two parties of the contract). In the case of Margin FX Transactions, these can be rolled indefinitely (provided you continue to meet the Margin Requirement and maintain the requisite amount of Free Margin) until you decide to close out the transaction.

Spot FX Transactions and Forward FX Transactions can involve an obligation to give or to take delivery at maturity. Delivery terms are set out in the terms and conditions of each individual foreign exchange transaction and are agreed by the parties at the time the transaction is executed.

Open positions held at the end of the business day before their value date will be rolled over to a new value date.

When you trade, you may trade a combination of two currencies. For example, you will buy US dollars and sell EURO. Or buy EURO and sell Japanese Yen, or any other combination of widely traded currencies. But there is always a long (bought) and a short (sold) side to a trade, which means that you are speculating on the prospect of one of the currencies strengthening and one of them weakening.

Quotes

A foreign exchange quote e.g. AUD/USD "0.8610 / 0.8620" represents the bid/ask spread (in this case for AUD/USD). This quote means that you can:

- (a) sell Australian Dollars at 0.8610 against the US dollar; and/or
- (b) buy Australian Dollars at 0.8620 against the US dollar.

Points

It is arbitrary how many significant figures are used in an exchange rate quotation. The last decimal place to which a particular exchange rate is usually quoted is referred to as a "point" or "pip". For example:

- In the quotation USD 1=AUD 0.8650, one point or one pip means AUD 0.0001 i.e. $0.8651 = 0.0001$.
- In the quotation USD 1=JPY 102.50, one point or one pip means JPY 0.01 i.e. $102.51 = 0.01$.

Of note, all points (or pips) are **not** of equal value.

Calculating Profits and/or Losses

The profit or loss from a transaction is calculated by keeping the units of one of the currencies constant (the "base" currency) and determining the difference in the number of units of the other currency (the "terms" currency). The profit or loss will be expressed in the units of the currency which is not kept constant.

Key Benefits of Foreign Exchange Products

Foreign exchange products provide important risk management tools for those who manage foreign currency exposures. Velocity Trade offers its clients the ability to buy and sell foreign currency using Spot FX Transactions, Margin FX Transactions, Forward FX Contracts or Option FX Contracts. This enables clients to protect themselves against adverse currency market swings. The significant benefits of using foreign exchange products offered by Velocity Trade as a risk management tool are to protect your exchange rate and provide cash flow certainty.

Other benefits are described as follows:

- **Manage Volatility**

Velocity Trade offers clients a way of managing volatility by working market orders that enables clients to protect themselves against adverse market movements yet secure enhanced market rates when offered. Clients, in normal market conditions, can minimise downside risk by the use of stop loss orders. In addition, clients may also use limit orders which allow them the opportunity to benefit from favourable upside market movements.

- **Provide Cash Flow Certainty**

By agreeing a rate of exchange now for a time in the future you will determine the exact cost of that currency, thereby giving certainty over the flow of funds. This applies equally to deliverable and non-deliverable products. In the case of a non-deliverable product any profit (or loss) you make using the Velocity Trade product would be offset against the higher (or lower) price you physically have to pay for the foreign currency.

- **Tailored and Flexible**

A major benefit of entering into an OTC contract is that you can tailor the transaction to meet your specific circumstances. As described in this Part 2 of the Combined FSG and PDS, unlike exchange traded products, OTC contracts are not standardised and can be personally tailored to suit your requirements. For example, Velocity Trade allows you to enter into transactions in small amounts and the settlement date is negotiable, whereas exchange traded products are a standard size and cannot be varied in duration. Margin FX Transactions can be rolled indefinitely (provided you continue to meet the Margin Requirement and maintain the requisite amount of Free Margin) until you decide to close out the transaction.

- **Virtual 24 Hour Trading**

When using Velocity Trade we will endeavour to provide you with access to our trading platforms which provides you the opportunity to trade 24 hours a day from Monday at 7.00am New Zealand time until 5.00pm New York time Friday (Saturday morning Australian and New Zealand time). This gives you a unique opportunity to react instantly to news that is affecting the markets.

- **Potential to profit in both rising and falling markets**

As the foreign exchange market is constantly moving, there are always trading opportunities, whether a currency is strengthening or weakening in relation to another currency. There is the potential for profit and loss in both rising and falling currency markets depending on the strategy you employ.

- **Leverage**

As Margin FX Transactions (and also Forward FX contracts) are highly leveraged, when you deal in foreign currencies you can potentially benefit from movements in the price of the underlying currencies without having to pay the full price of holding the physical currencies. You can effectively take a position with the same result as purchasing or selling a currency for less outlay than the equivalent physical transaction and still potentially benefit from a price move. Leverage gives the user the ability to take a greater level of risk for a smaller initial outlay, thus amplifying the risks and rewards. However, you need to fully understand that leverage also increases risks and can magnify losses – see *Significant Risks Explained*.

- **High Level of Liquidity**

The foreign exchange market is very liquid enabling Velocity Trade to efficiently manage its risks by entering into transactions with its hedging counterparties. The liquidity comes mainly from large and smaller banks that provide liquidity to investors, companies, institutions and other currency market players.

- **Competitive spreads**

Velocity Trade is a market maker, not a broker, and Velocity Trade generates some its income from the spreads that are embedded in the currency rates offered by Velocity Trade.

- **Real time quotes**

Velocity Trade uses sophisticated technology and/or liquidity providers (counterparties) in order to offer you up-to-the-minute quotes. You may check your accounts and positions in real time and you may do so 24 hours a day and trade based on real-time information.

How is the Foreign Exchange Rate Calculated?

Velocity Trade cannot predict future exchange rates and our rate quotations are not a forecast of where we believe a foreign exchange rate will be at a future date. The decision to transact at a particular rate will always be the client's decision.

The calculation of the price to be paid (or the payout to be received) for foreign exchange products offered by Velocity Trade, at the time the product is purchased or sold, will be based on Velocity Trade's best estimate of market prices and the expected level of interest rates, implied volatilities and other market conditions during the life of the foreign exchange product and is based on a complex arithmetic calculation.

The calculation of the price quoted will include a spread in favour of Velocity Trade. The prices offered to clients may differ from prices available in the primary or underlying markets where contracts are traded. This is due to the spread favouring Velocity Trade in the price calculation. Velocity Trade acts as a market maker (and not a broker) and generates income from the spreads that are embedded in the currency rates which are quoted. The spread is the difference between the rate at which we buy or sell foreign exchange products with our hedging counterparties and the rate at which we buy and sell foreign exchange products with our clients. Different spreads may also be applied depending on the value of the transaction and the underlying prevailing market conditions. This spread is factored into the prices quoted to clients i.e. they are not an additional charge to the client.

Velocity Trade does not provide a market amongst or between its clients. Each financial product purchased (or sold) by a client is an individual agreement made between that client and Velocity Trade and is not transferable, negotiable or assignable to or with any third party.

How are the Velocity Trade Products Traded?

Clients primarily transact in our products using online trading platforms provided by Velocity Trade. Accordingly, clients are provided with direct access to our quoted prices over the internet.

In addition, we refer you to Part 1 of this Combined FSG and PDS which describes other ways in which you can give us instructions to trade.

We have provided some examples on our website at www.velocitytrade.co.nz to help illustrate how the foreign exchange products offered by Velocity Trade work. These examples are illustrations only and actual results may differ.

Costs of Foreign Exchange Products

Velocity Trade does not charge its clients commission (brokerage) to transact. Instead, Velocity Trade earns its income through various sources which are explained in Part 1 of this Combined FSG and PDS. However, Velocity Trade does reserve the right to review the fees we charge where there is a service outside of the standard trading platform functionality (these are described on our website). Some examples of charges are:

- **Funding Cost/Benefit**

In relation to Margin FX Transactions and also Forward FX contracts you may incur/receive a Funding Cost/Benefit when your transaction is rolled. This means that open positions held at the end of the business day will be rolled over and remain open until the end of the next business day (unless the position is closed or we are notified of another value date). Your Margin FX Transaction may be rolled indefinitely provided that you continue to meet your Margin Requirement and maintain the minimum required Free Margin.

The Funding Cost/Benefit will depend on the interest rate differential between the two currencies in the currency pair of your transaction. Whether you incur a cost or receive a benefit will depend on whether you hold a long (bought) or short (sold) position and also which currency has the higher yield (i.e. interest rate).

For example, if you are long AUD/USD (i.e. you have bought AUD against USD) and interest rates are higher in Australia than in the US, you will receive a Funding Benefit when the position is rolled overnight because you are holding a higher yielding currency. However, if the interest rate in the US is sufficiently higher than Australian interest rates, you will incur a Funding Cost because you are holding the lower yielding currency.

We have provided some examples on our website at www.velocitytrade.co.nz to help illustrate how the Funding Cost/Benefit is calculated and how it can impact

on the financial results of your transactions. These examples are illustrations only and actual results may differ.

- **In the Event of Default**

If you fail to meet any of your obligations to Velocity Trade as fully set out in the Client Agreement, such as failing to meet your Margin Requirement or maintain the minimum required Free Margin or if you incur a loss greater than the amount of funds in your account, you may have to pay default interest and any other costs incurred by Velocity Trade associated with recovering payment from you.

We refer you to the Rates Schedule on our website for the interest rate applicable for the calculation of default interest at any particular time.

- **Transacting over the Telephone**

Velocity Trade may charge you a fee at its sole discretion of an amount that it sees fit, as published from time to time on the website for accepting an instruction from you over the telephone to transact. This fee will not be charged in the event the trading platforms are not available.

- **Credit Card Payments**

Velocity Trade may charge you a fee for accepting a credit card payment from you. This fee will be a percentage of the face value of the payment, as displayed on our website from time to time. This fee applies to all credit card payments except for the payment for your initial funds lodged with Velocity Trade on opening an account.

- **Other**

Velocity Trade may charge you a fee for services or features that we may introduce in the future (e.g. an amount for the guarantee of the filling of a stop loss order). Any such charges will be notified to you prior to being implemented.

Velocity Trade's rights to charge fees are set out in the Client Agreement. We refer you to the Rates Schedule on our website which sets out our current fees.

Significant Risks Explained

You should be aware that trading in the foreign exchange products offered by Velocity Trade involves risks. It is important that you carefully consider whether trading our products is appropriate for you in light of your investment objectives, financial situation and needs.

Foreign exchange products carry a high degree of risk. Any transaction involving currencies is exposed to, among other things, changes in a country's political condition, economic climate, acts of nature and so on, all of which may substantially affect the price or availability of a given currency.

Velocity Trade has a risk management framework within the software supporting the trading platforms which, assuming you meet all of your obligations to us (as fully set out in the Client Agreement), attempts to limit your potential loss to the amount in your account. However, at all times, if you have transactions open with us your potential loss can be substantial and is not limited to any amount.

Velocity Trade recommends that you do not risk money that you are not in a position to lose and that you adopt a philosophy of capital preservation and implement risk mitigation techniques (such as the use of stop loss orders). ***You may lose in excess of the moneys initially deposited and also in excess of any Margin Requirement.***

The following is a description of significant risks associated with trading foreign exchange products offered by Velocity Trade.

- **Derivatives Risks Generally**

The risk of loss in trading in derivatives contracts can be substantial. You should carefully consider whether trading is appropriate for you in light of your personal and financial circumstances. In deciding whether or not you will become involved in trading, you should be aware of the following matters:

- (a) You could sustain a total loss of the amount that you deposit with Velocity Trade to establish or maintain a position . Your loss is not limited to that amount i.e. you could lose additional money beyond the funds you have deposited with us. In this situation Velocity Trade will require those funds to be paid immediately.
- (b) If the market moves against your position, you will be required to deposit additional funds as margin in order to maintain your position and the minimum required Free Margin. Those additional funds may be substantial. If you fail to provide those additional funds Velocity Trade will close out some or all of your open transactions.
- (c) Under certain market conditions, it could become difficult or impossible for you to manage the risk of open transactions by entering into opposite transactions to close out existing positions.
- (d) Under certain market conditions the prices of our foreign exchange products may not maintain their usual relationship with the underlying foreign currency market.
- (e) The foreign exchange products offered by Velocity Trade involve risk. However, the placing of contingent orders such as a stop loss order may limit your loss. Notwithstanding, under certain market conditions, prices will go through the stop loss level and may be executed at a worse price. There is no guarantee that a stop loss order will be executed at the order price.
- (f) The high degree of leverage that is obtainable in trading some of the foreign exchange products offered by Velocity Trade because of the small margin requirements can work against you as well as for you. The use of leverage can lead to large losses as well as large gains. The impact of leverage is that even a slight fluctuation in the market could mean

substantial gains when these fluctuations are in your favour, but that could also mean considerable losses if the fluctuations are against your position. Trading in the foreign exchange products offered by Velocity Trade may result in the total loss of the amount you deposited with Velocity Trade plus be liable for further losses.

If you propose to trade in options, the maximum loss in buying an option is the amount of the premium. Clients can only sell options to close out an open position i.e. clients are not permitted to grant or write options unless part of a tailored structured product and with the prior approval of Velocity Trade.

- **Market Volatility**

Foreign exchange currency markets are subject to many influences which may result in rapid currency fluctuations and reflect unforeseen events or changes in conditions with the inevitable consequence being market volatility.

Given the potential levels of volatility in the foreign exchange markets, it is therefore recommended that you closely monitor your positions with Velocity Trade at all times.

In certain market conditions such as during extreme price volatility in markets, quotes provided by Velocity Trade may 'gap'. A gap means that a price may unexpectedly jump from one price level to another without trading at rates in between those two price levels or quotes. It is not possible for us to predict when a price 'gap' will occur or by how much. Price gaps are generally a result of unexpected news or previously unknown data being released (e.g. news of terrorist attacks, revaluation of a currency, geopolitical upheaval or natural disasters). In such an event Velocity Trade reserves the right to make cash adjustments where there have been losses incurred by us as a result of an order you have active on the trading platform.

- **Counterparty Risk**

Given you are dealing with Velocity Trade as counterparty to every transaction, you will have an exposure to us in relation to each transaction. This is common to all OTC financial market products.

You are reliant on Velocity Trade's ability to meet its counterparty obligations to you to settle the relevant transaction. Velocity Trade may choose to limit this exposure by entering into opposite transactions as principal in the wholesale market with its hedging counterparties in relation to its exposures to its clients. In addition, Velocity Trade must comply with the financial requirements imposed under its AFS Licence.

If Velocity Trade was to go into liquidation you would be an unsecured creditor except to the extent that funds are held upon trust for you in our Segregated Funds Account.

- **Obligation to Actively Monitor Your Transactions**

We refer you to Section 6.4 of Part 1 of this Combined FSG and PDS.

You are responsible for actively monitoring and managing your transactions at all times meeting your obligations including ensuring that you meet your Margin Requirement and maintain the minimum required Free Margin. Velocity Trade is under no obligation to contact you in the event of any change to the Margin Requirement or minimum required Free Margin or any actual or potential shortfalls in your account.

Failure to maintain the required level of Margin Requirement and maintain the minimum required Free Margin, may result in some or all of your open transactions, without prior notice to you, being closed out by Velocity Trade and the resulting realised loss (or profit) debited (or credited) to your account.

- **Opportunity Cost**

Once you have entered into a transaction you will have locked in the rate for your chosen currency pair and you will not be able to take advantage of subsequent favourable exchange rate movements should that occur, in relation to your existing position. On the other hand, you will be protected from any adverse movements. You may still enter into other transactions at a more favourable rate provided you are able to continue to meet your obligations to us.

If you buy an Option FX Contract, the underlying movement in currency rates may not be enough to cover the cost of your option i.e. the premium.

- **Basis Risk**

The terms of a particular transaction may not be a perfect hedge against a particular type of risk or exposure where you are using a foreign exchange product as a risk management tool. Even small differences between the terms of the transaction and the underlying asset, liability or position to which the transaction relates may create a basis risk.

- **System Risks**

Velocity Trade relies on a number of technology solutions to provide you with its on line trading platforms. Velocity Trade ensures the systems are regularly updated and maintained. Velocity Trade has been operating one of its trading platforms since 2007 and implemented an additional trading platform in September 2008. Additional trading platforms may be offered from time to time at the discretion of Velocity Trade. Trading on the Velocity Trade trading platforms may differ from trading on other electronic trading systems.

A disruption to the Velocity Trade trading platforms may mean you are unable to trade in a foreign exchange product offered by Velocity Trade when you wish and you may suffer a financial loss or opportunity loss as a result.

With respect to the settlement of Spot FX Transactions, Velocity Trade relies on third party system providers to assist in currency transfers between accounts. Velocity Trade will not be able to control disruptions to these systems.

- **Electronic Trading**

There are significant risks associated with using and relying on a web-based, electronic trading platform. Such risks include, but are not limited to, risks related to the use of software and/or telecommunications systems such as software errors and bugs, delays in telecommunications systems, interrupted service, data supply errors, faults or inaccuracies and security breaches.

These risks and the occurrence of disruptive events are outside the control of Velocity Trade and, accordingly, you will have no recourse against Velocity Trade in relation to the use of or availability of our trading platforms or any errors in the software and/or related information systems.

There are important provisions regarding the use of the trading platforms contained in the Client Agreement. You must ensure that you fully understand these provisions and the risks involved in relying on an on-line, electronic trading system and the limitations in the service that Velocity Trade can provide in relation to the trading platforms.

- **Use and Access to the Website**

You are responsible for providing and maintaining the means by which to access the Velocity Trade website. While the internet is generally reliable, technical problems or other conditions may delay or prevent you from accessing the Velocity Trade website at www.velocitytrade.co.nz. If you are unable to access the internet and thus, our trading platforms, it will mean you are unable to trade in a foreign exchange product offered by Velocity Trade when you wish to do so and you may suffer a financial loss or opportunity loss as a result.

Furthermore, Velocity Trade reserves the right to suspend the operation of our website or any part or sections of it. In such an event, Velocity Trade may, at its sole discretion (with or without notice), close out your open positions at prices it considers fair and reasonable at such a time.

- **Trading Platform Closed**

Due to the dynamic nature of the foreign exchange markets, it is possible that the value of your open positions will change while the trading function of one or more of our trading platforms are closed. In this case, you will not be able to trade in a foreign exchange product such as open a new transaction or close out an open transaction until the trading function of the trading platform re-opens. You may suffer a financial loss or opportunity loss as a result.

- **Transactions are not Transferable**

As each transaction you enter into with us is a transaction between you and Velocity Trade and is not traded on an exchange or market, you will not be able

to sell, transfer or assign the transaction to any other person. Velocity Trade may at its discretion assign or transfer its interest in the transaction to any other person.

- **Abnormal Market Conditions or Force Majeure**

Velocity Trade reserves the right to close out some or all of your open transactions between you and Velocity Trade if an event occurs that is beyond your or our control, where such event either wholly or partially prevents, hinders, obstructs, delays or interferes with your ability to meet your obligations under the Client Agreement.

We refer you to the Client Agreement which sets out examples of such events and you must ensure that you fully understand these events.

- **Discretionary Powers of Velocity Trade**

Under the Client Agreement, Velocity Trade has a number of discretionary powers which may affect your trading activities. We refer you to the Client Agreement which sets out these powers and you should fully understand them.

- **Out of the Money Option FX Contracts**

This is a term used to describe an Option FX Contracts that cannot, at current prices, be exercised at a profit. An out-of-the-money option is a call option whose strike price is higher than the current market level or a put option whose strike price is below the current market level.

A client contemplating purchasing a deep out-of-the-money Option FX Contract should be aware that the chance of such an option becoming profitable is generally remote.

- **Client Monies (Australia)**

Funds representing margin monies (i.e. Margin Requirement and Free Margin) paid by the client to Velocity Trade are deposited into our Segregated Funds Account which is a client trust account. This means that client funds (and property) deposited with us are held in safe keeping and segregated from our own funds (or property). In brief, this means that those funds are not available to pay general creditors in the event of receivership or liquidation by Velocity Trade. Such amounts are not treated as funds belonging to Velocity Trade but are treated as funds belonging to the client and will be invested by Velocity Trade in accordance with the Corporations Act.

For money deposited in our Segregated Funds Account, the client is required to acknowledge in the Client Agreement that:

- individual client accounts are not separated from each other;
- all clients' funds are co-mingled into the one account;

- the client money provisions may not insulate any individual client's funds from a default in our Segregated Funds Account. Such a default may arise from any clients' trading; and
- assets in the Segregated Funds Account belonging to non-defaulting clients are potentially at risk, even though they did not cause the default.

This is to be contrasted with funds representing Part Payment Requirements in connection with Forward FX Transactions which are not held on trust for the client and are not segregated from Velocity Trade's own funds. Such amounts are co-mingled with Velocity Trade's own funds and the client does not have any right to the return of those funds during the term of a Forward FX Transaction. Refer Schedule 3, Section 7.2 of the Client Agreement for more information about the Part Payment Requirements.

- **Client Monies (New Zealand)**

The Segregated Funds Account is an account Velocity Trade holds with ASB Bank Limited or another bank registered with the Reserve Bank of New Zealand, in which monies received from or held on behalf of each client of Velocity Trade is held according to each client's proportionate entitlement.

Only funds held for the purposes of meeting margin Requirements for Margin FX Transactions are held in the Segregated Funds Account.

In the event that Velocity Trade were to become insolvent, the balance standing to the credit of the Segregated Funds Account will not be available to creditors of Velocity Trade (including ASB or any other Registered Bank). In the event of insolvency of Velocity Trade, the Client will be an unsecured creditor to the extent that the Client has a claim against Velocity Trade for amounts representing its proportionate entitlement of the Segregated Funds Account. The extent to which that Client may recover its proportional entitlement of the Client Money will be determined by applicable insolvency laws in New Zealand subject to any contractual arrangements the Client has with Velocity Trade (e.g. the set-off and netting rights of Velocity Trade against Client Money, under the terms of the Client Agreement).

Velocity Trade is able to and will withdraw a Client Money from the Segregated Funds Account in accordance with the Client Agreement (for example, to meet the Client's Margin Requirement).

Once Velocity Trade has exercised its rights under the Client Agreement against Client Money, those funds become funds of Velocity Trade and not the Client and as such, amounts are no longer held in the Segregated Funds Account in name of the Client.

OUR CONTACT DETAILS

You can contact us by the following means:

- **Telephone**
Call us on (+649) 918 8800
Toll free NZ 0800 872346
Toll free AUS 1800 216 880
- **Mail or Fax**
Write to The CEO at PO Box 6045, Wellesley Street, Auckland 1141 or send us a fax to (+64 9) 309 6283.
- **Email**
Send us an email to info@VelocityTrade.com
- **In person**
Visit our offices at Level 8, Phillips Fox Tower, 209 Queen Street Auckland.
Office hours are 9am to 5pm.
- **Visit our Website at** www.velocitytrade.co.nz