
BUSINESS

OVERVIEW

We are a Hong Kong-based financial services provider offering bespoke services to individual and corporate clients. Our main business comprises (i) securities brokerage; (ii) securities-backed lending; and (iii) placing and underwriting. Instead of focusing on mass market retail investors and the typical institutional clients of large scale investment banks, our Group offers tailored services to clients with investment appetites for the securities of small-to medium-sized companies listed on the Stock Exchange.

Through our main operating subsidiary, PSL, we are licensed to carry out Type 1 (dealing in securities) regulated activity under the SFO, including brokerage services, margin financing services as well as placing and underwriting services in Hong Kong. PSL is also an Exchange Participant.

In order to provide a one-stop securities-backed lending service, we also offer money lending services on a case-by-case basis, which is conducted via our subsidiary, PCGL, an entity licensed and regulated under the Money Lenders Ordinance. Whilst margin financing obtained via PSL may only be utilised for the purchase of securities through our brokerage service, loans obtained from PCGL can also be utilised for purposes other than the purchase of securities through PSL.

During the Track Record Period, interest income from our securities-backed lending services constituted our main revenue source, representing approximately 84.6% and 57.0% of our total revenue for the two years ended 31 December 2013 and 2014 respectively. For the two years ended 31 December 2013 and 2014, commission income from our brokerage services constituted approximately 13.1% and 26.1% of our total revenue respectively, whilst commission income derived from our placing and underwriting services in the same period constituted approximately 1.6% and 16.2% of our total revenue respectively.

Notwithstanding our short operating history, we are led by an experienced management team under which our Group recorded significant growth in terms of revenue as well as profit within the span of two years. In particular, their decision to expand our loan portfolio and enlarge our client base was the prime driver of our Group's growth during the Track Record Period.

COMPETITIVE STRENGTHS

Our lean organisational structure translates into a quick and efficient service for our customers

It is our belief that our lean organisational structure is one of our key advantages, as it means our overall response time is quick and we can make decisions in a timely manner. In this regard, we pride ourselves on our ability to respond to our customers in a fast and efficient manner which, according to our clients, compares favourably to other market players operating in Hong Kong. In addition, our lean organisational structure allows us to respond rapidly to developments in our business environment, thereby enabling us to capture new market opportunities as well as react to any adverse market changes in a timely manner.

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The complementary nature of our services allows us to cross-sell our various services to our clients

We provide a one-stop financial service encompassing securities-backed lending in addition to brokerage as well as placing and underwriting, thereby meeting the different needs of our customers. By offering a range of services, we also broaden our exposure to different segments of customers, whereby we are able to cross-sell our services and expand our overall business.

Our management has extensive personal networks which help us access our target customers and maintain strong relationships with our clients

We believe that our management's personal networks, which include individuals and corporations, are integral to our business. The majority of our business is introduced to us through these personal networks, which allow us to build strong long-term relationships with our clients. These strong client relationships in turn enhance our ability to tailor make our services to cater to the various needs of our customers.

BUSINESS STRATEGIES

Focus on clients with investment appetites for the securities of small- to medium-sized listed companies

One of our strategies is to focus on customers who are keen to invest in the securities of small- to medium-sized companies listed on the Stock Exchange. Based on our experience, these customers are generally less sensitive to commission rates and interest rates. Instead, they place more emphasis on the quality of customer service and, in particular, how quickly their orders are handled. In addition, the efficiency of our operational structure affords us the luxury of conducting sufficient credit analysis on the securities of small- to medium-sized listed companies often offered as collateral for margin financing loans by this segment of customers without impairing our ability to respond to customers in a timely manner. Details of our credit analysis procedure are set out in the paragraphs headed "Operations" and "Internal control" in this section.

Tailor-made services

We aim to establish long-term relationships with our customers through providing bespoke services catered to their investment objectives and appetites. We believe strong business relationships with our customers allow us to gain a deeper understanding of their backgrounds and investment preferences, thereby enhancing our ability to better assess the risks involved. In addition, we can offer packages for our margin financing services which are competitive in terms of the wide range of securities accepted as collateral (from blue chips to those of certain small- to medium-sized companies approved by our Credit Committee), the approval response time and the rates charged. We believe our business is in essence epitomised by our ability to offer competitive packages to customers in a short time frame.

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Leveraging synergies between our different services

In order to maximise our Group's profits as a whole, our services operate in a mutually beneficial fashion. We believe that we encourage clients to trade with us by offering competitive margin financing packages which, by their very nature, also stimulate our brokerage activities. Similarly, due to our emphasis on building lasting client relationships, customers who are satisfied with our trading operations are, in our opinion, more inclined to apply for margin loans to fund further trades. Indeed, during the Track Record Period there were several instances of brokerage customers subsequently applying for margin financing for this very reason. In addition, there were several instances during the Track Record Period of margin clients utilising our money lending service. The existing relationship with a customer prior to application for margin financing also provides us with access to their trading and settlement records, which enhances our credit assessment whilst considering their securities-backed lending application.

In addition, our brokerage and securities-backed lending services are also complementary to our placing and underwriting services, in that we are able to leverage on our existing pool of brokerage and securities-backed lending clients as well as our own personal networks when acting as placing agent. This existing pool of investors who are interested in the securities of small- to medium-sized listed companies, along with the potentially more favourable price available via private placement, attracts investors looking for trading opportunities.

SOURCE OF FUNDS

During the Track Record Period, we obtained funds primarily through paid up capital contributed by our Shareholders and internal resources, such as the interest and commission income derived from our business and through shareholder loans. Going forward, we intend to finance our future operations, capital expenditure and other capital requirements with the capital generated from our business operations as well as the net proceeds of the [REDACTED].

SUSTAINABILITY OF OUR BUSINESS

We have a mostly equity-based capital structure

As indicated in the paragraph headed "Source of funds" in this section, our Group had a mostly equity-based capital structure, with gearing ratios of nil and nil as at 31 December 2013 and 2014. During the Track Record Period and up to the Latest Practicable Date, we had only utilised approximately HK\$4.0 million of our overdraft facility from a local Authorised Institution. This model mitigates our Group's liquidity risks arising from fluctuations in interest rates as well as any adverse developments in the credit market, such as any tightening measures implemented in the banking industry. As disclosed in the section headed "Future plans and use of proceeds" of this document, we intend to expand our securities-backed lending services using the net proceeds from the [REDACTED]. As a result, fluctuations in the credit market will have limited impact on our ability to sustain the growth of our business.

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Our expansion plans do not entail a corresponding increase in our operating costs

During the Track Record Period, our operating costs remained relatively stable compared to the significant growth in our revenue. For the two years ended 31 December 2013 and 2014, our total revenue amounted to approximately HK\$16.5 million and HK\$33.0 million respectively, whilst our operating costs over the same period amounted to approximately HK\$5.5 million and HK\$5.6 million, excluding listing expenses of approximately HK\$1.7 million incurred in the year ended 31 December 2014, representing approximately 33.1% and 17.0% of our total revenue during the Track Record Period. Whilst we intend to expand our securities-backed lending services and ultimately our revenue growth with the net proceeds from the [REDACTED], we do not currently foresee any material corresponding rise in our operating costs as our organisational structure is lean and efficient and our expansion plans will not require any significant investment in personnel or equipment in the near future.

Our loan portfolio is secured by equity securities which are liquid with highly transparent value

During the Track Record Period, most of our loans were secured by equity securities, thus mitigating our Group's credit risk exposure. We have established policies and procedures to ensure sufficient due diligence is conducted on the collateral on offer, which is set out in the paragraphs headed "Internal control" and "Operations" in this section. Unlike other types of collaterals typically pledged as security, such as properties, the values of equity securities are highly transparent, which in turn enhances the accuracy of our credit assessment. In addition, the collaterals pledged to us, being equity securities, are comparatively liquid and therefore can be released on the market in a timely manner in the event of default.

PRINCIPAL BUSINESS

We provide a range of financial services which are tailor-made to suit the needs of each of our clients, both individual and corporate. Our revenue is primarily derived from (i) commission from our brokerage services; (ii) interest from our securities-backed lending services; and (iii) commission from our placing and underwriting services.

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Source of revenue

The following table sets out the amount of revenue derived from our principal services and their respective percentages of our total revenue over the course of the Track Record Period:

	Year ended 31 December			
	2013		2014	
	<i>HK\$'000</i>	<i>Percentage of our Group's revenue</i>	<i>HK\$'000</i>	<i>Percentage of our Group's revenue</i>
Commission income from brokerage services	2,153	13.1%	8,610	26.1%
Interest income from securities- backed lending services:				
backed lending services:	13,936	84.6%	18,839	57.0%
<i>Margin financing services</i>	6,549	39.8%	13,357	40.4%
<i>Money lending services</i>	7,387	44.8%	5,482	16.6%
Commission income from placing and underwriting services	265	1.6%	5,335	16.2%
Handling fee for ancillary services	120	0.7%	241	0.7%
Total	<u>16,474</u>	<u>100%</u>	<u>33,025</u>	<u>100%</u>

Our Group recorded an increase of approximately 100.5% in the total revenue of our Group from approximately HK\$16.5 million for the year ended 31 December 2013 to approximately HK\$33.0 million for the year ended 31 December 2014. The significant increase in our Group's revenue from 2013 to 2014 was mainly due to (i) the rise in the number of active customers in the same period and the general increase in trading activities of customers, which is in line with the overall increase in the turnover of securities trading in the Hong Kong market as set out in the section headed "Industry overview"; and (ii) the expansion of our Group's loan portfolio.

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Commission and interest rates

Set out below are the various rates we generally charged in relation to our principal business activities during the Track Record Period:

	For the year ended 31 December	
	2013	2014
1. Securities brokerage commission	0.05% to 0.25%; minimum commission of HK\$80.0	0.05% to 0.25%; minimum commission of HK\$80.0
2. Securities backed lending:		
Margin financing interest	10.5% to 14.5% per annum	12.5% to 20.0% per annum
Money lending interest (<i>Note 1</i>)	24.0% to 36.0% per annum	24.0% to 36.0% per annum
3. Placing or underwriting commission	For sellers/issuers: HK\$0.2 million (<i>Note 2</i>) For placees: 1.0% to 1.5%	For sellers/issuers: 2.5% to 3.75% For placees: 1.0% to 1.25%

Notes:

1. Refers to the rates specified in the respective loan agreements.
2. We conducted only one such transaction in 2013, for which we charged a flat fee.

1. *Brokerage services*

Our brokerage service is conducted by our wholly-owned subsidiary, PSL, which is licensed under the SFO to conduct Type 1 (dealing in securities) regulated activity. We execute trades on our clients' behalf in equity securities traded on the Stock Exchange. Trade deals are conducted via a three-stage process handled by members of our front office team, who are all licensed under the SFO. During the course of said three-stage process, members of our front office team are responsible for (i) receiving client orders; (ii) placing client orders; and (iii) passing client orders to the settlement department. In addition to these responsibilities, our front office team also provides relevant and up to date investment information to clients in order to help them place well-considered orders. Our Responsible Officers personally oversee all trading and dealing operations.

During the Track Record Period, our Group generated income from 143 active customers, namely 89 for the year ended 31 December 2013 and 117 for the year ended 31 December 2014. For the two years ended 31 December 2013 and 2014, commission from our brokerage business amounted to approximately HK\$2.2 million and HK\$8.6 million respectively, representing

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approximately 13.1% and 26.1% of our total revenue respectively. During the two years ended 31 December 2013 and 2014, we charged our clients commission rates ranging from 0.05% to 0.25% of the total transaction value, with a minimum commission charge of HK\$80.0 per transaction.

2. Securities-backed lending services

Our securities-backed lending services comprise two primary components, namely our margin financing service under our Type 1 licence and our money lending service under our Money Lenders Licence, which are conducted through two of our wholly-owned subsidiaries, PSL and PCGL respectively. Customers who obtain margin financing from PSL may only use such financing for securities trading through their brokerage accounts with us, whereas clients may use loans obtained from PCGL for other purposes, which may or may not include the purchase of securities through PSL.

Overall, during the Track Record Period, we had a total of 93 active customers for our securities-backed lending services, comprising 89 active margin customers and four money lending customers. Interest income from our securities-backed lending services was our Group's major revenue source during the Track Record Period. For the two years ended 31 December 2013 and 2014, revenue attributable to these services amounted to approximately HK\$13.9 million and HK\$18.8 million respectively, constituting approximately 84.6% and 57.0% of our Group's total revenue. It is our belief that our securities-backed lending services have considerable room for revenue expansion, and we expect this aspect of our business to remain the key driver of our Group's revenue going forward. Please refer to the section headed "Future plans and use of proceeds" of this document for more information on this matter.

Margin financing

PSL commenced its margin financing service in December 2012. According to the SFO, PSL's licence to conduct Type 1 (dealing in securities) regulated activity also allows us to conduct securities margin financing. Through the provision of margin facilities, we offer secured financing to our brokerage clients in order to facilitate their securities purchases. The flexibility afforded to such clients by our provision of margin loans with their listed securities as collateral enhances their trading capabilities through financial leverage. Our customers may only use such margin financing for the purchase of securities through PSL's brokerage service.

Our front office team handles all aspects of the margin financing process, including liaising with clients and proposing margin ratios and interest rates. Before our existing securities trading clients can apply for margin loans from us, they must be processed through our margin account opening procedures in the presence of one of our Licensed Representatives or Responsible Officers. A margin ratio (which is calculated by expressing the total amount granted to the customer as a percentage of the total value of collaterals pledged to our Group) represents the maximum percentage of financing a customer can receive against the value of collateral shares in his or her account. They are determined with reference to (i) the ratios fixed by our principal bank; (ii) our own analysis of the quality of collaterals on offer; and (iii) the ratios offered by other securities firms. Currently a margin ratio of up to 70.0% is offered to customers.

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All margin loan applications are considered by our Credit Committee. Three members of our five-person Credit Committee are required to approve margin loan applications of under HK\$5.0 million. The approval of one of our executive Directors is required in addition to that of two other members of our Credit Committee to approve margin loan applications equal to or exceeding HK\$5.0 million. Please refer to the paragraphs headed "Operations" and "Internal control" in this section for further information regarding how we process margin loan applications and determine margin interest rates.

Income from the provision of margin facilities to clients is derived from charging interest on the aforesaid margin loans. Interest rates are approved on a case-by-case basis for individual clients by our Credit Committee, and are made by assessing, among other things, the margin ratio requested, the amount of financing requested, the collateral on offer, its value, its liquidity, its type (e.g. blue chip, red chip, small- to medium-sized listed companies, etc.) and the composition of the stock portfolio (e.g. single stock portfolio or multi-stock portfolio). In general, the interest rates charged during the Track Record Period for our margin financing services ranged from 10.5% to 20.0% per annum.

During the Track Record Period and up to the Latest Practicable Date, our margin financing service consisted of 89 active customers, being those customers from whom our Group had generated income, the interest income derived from which amounted to approximately HK\$6.5 million and HK\$13.4 million for the two years ended 31 December 2013 and 2014 respectively.

Money lending

Our money lending service is conducted through our wholly-owned subsidiary, PCGL. PCGL is a licensed money lender under the Money Lenders Ordinance. It has been operating as such since March 2013, soon after our Money Lenders Licence was first obtained. During the Track Record Period, we extended loans to four customers. Three of these loans were backed with securities as collateral, whilst the other was secured by an Independent Third Party guarantee. We offer both secured and unsecured loans on fixed or revolving terms to our customers. During the Track Record Period, we have not granted any unsecured loans. For secured loans, we conduct a thorough valuation of the collateral being pledged in order to quantify its worth and therefore minimise any credit risk we may face. Our licence under the MLO allows us to accept various types of collateral, including securities and property. In view of our experience in the securities-backed lending business and our aim of providing a one-stop securities-backed lending service, during the Track Record Period, we only accepted listed securities as collateral. As a general rule, for securities-backed loans the loan-to-value ratio shall not exceed 70.0% at the time of loan drawdown. In particular, existing margin clients who wish to obtain a securities-backed loan from PCGL must offer unpledged securities as collateral (i.e. securities that are not pledged under their margin financing arrangements with PSL).

Our front office team handles all of the day-to-day operations of our Group's money lending service, and are responsible for, among other things, handling and processing loan applications, verifying loan application supporting documents, and liaising with customers. All of our potential customers must undergo a thorough "know-your-client" vetting process before any loan applications can be considered.

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Loan applications are considered by the Credit Committee. As with our margin financing business, at least three members of our five-person Credit Committee are required to approve loan requests of under HK\$5.0 million. The approval of one of our executive Directors is required in addition to that of two other members of our Credit Committee to approve loan requests equal to or exceeding HK\$5.0 million. By establishing these checks and safeguards we aim to minimise any risk we may encounter whilst at the same time maximising returns and ensuring a high level of customer satisfaction.

Summary of the principal terms of our loans during the Track Record Period

Set out below is a summary of the principal terms of our loans according to the loan agreements entered into between our customers and our Group during the Track Record Period:

Loan type	Loan amount range	Average loan amount	Interest rate per annum	Repayment period
Secured by securities collateral	HK\$3.5 million to HK\$17.7 million	HK\$8.9 million	24.0% to 36.0%	2 to 6 months
Secured by Independent Third Party guarantee	HK\$20.0 million	HK\$20.0 million	36.0%	5 months

Revenue from our money lending service is derived from charging interest to customers and, during the Track Record Period, we charged customers interest rates ranging from 24.0% to 36.0%. Rates are determined with reference to various factors, which include, but are not limited to, the repayment ability of the customer, the credit history of the customer, the amount of loan requested, the type of collateral or guarantee available and the repayment period of the loan. The collaterals are analysed according to various matrices, including their value, their liquidity and their type (i.e. blue chip, red chip, small- to medium-sized listed companies, etc.), and the composition of the stock portfolio (e.g. single stock portfolio or multi-stock portfolio). Our Company believes that the higher risk associated with our money lending service (in that the loan amount can be used for purposes other than securities trading with PSL) is reflected in the higher interest rates we charge when compared with our margin financing business. During the Track Record Period, the value of the amounts we loaned ranged from HK\$3.5 million to HK\$20.0 million, with repayment periods ranging from two months to six months.

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During the Track Record Period, revenue generated from our money lending service was derived from the provision of secured loans to four customers. For the two years ended 31 December 2013 and 2014, interest income attributable to our money lending service amounted to approximately HK\$7.4 million and HK\$5.5 million respectively, representing approximately 44.8% and 16.6% of our total revenue respectively.

3. Placing and underwriting services

We have been conducting our placing and underwriting activities through our subsidiary, PSL, since January 2013. In general, we act as placing agent or underwriter for equity and debt securities listed on both the Main Board and GEM of the Stock Exchange. Our placing and underwriting services are generally offered to listed companies or the shareholders of listed companies, all of whom have been referred to us or have heard of our business via word of mouth.

During the Track Record Period, we conducted a total of 21 placing transactions; ten during the year ended 31 December 2013 and 11 during the year ended 31 December 2014. All of these placing transactions were conducted on a best-effort basis on the secondary market (i.e. the placing of existing and/or new shares of listed companies). During the Track Record Period, we did not underwrite any transactions.

Revenue derived from our placing and underwriting services comes entirely from commission charged to both the seller/issuer (including shareholders regarding the placing of existing shares and listed companies regarding the placing of new shares) and to placees. Commission rates are determined based on arm's length negotiations, and are dependent on a range of factors such as the market's perception of the proposed placing shares and the intended placing price. As the primary placing agent, we generally charge 3.5% to sellers and 1.0% to placees for our services. During the two years ended 31 December 2013 and 2014, income attributable to our placing and underwriting services amounted to approximately HK\$0.3 million and HK\$5.3 million, representing 1.6% and 16.2% of our revenue for those two years respectively.

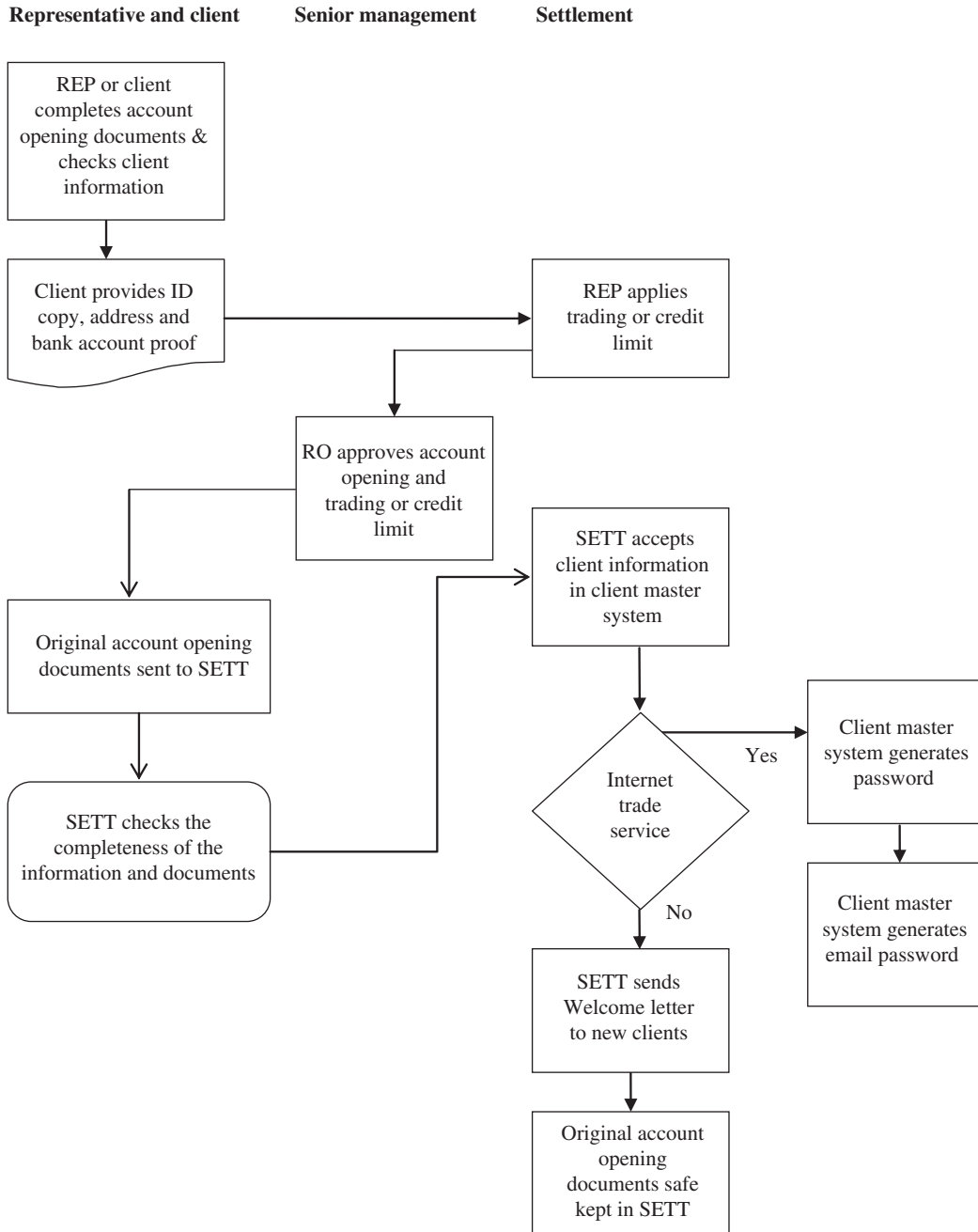
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OPERATIONS

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Account opening process

The following flowchart illustrates our account opening process for both margin and cash accounts:



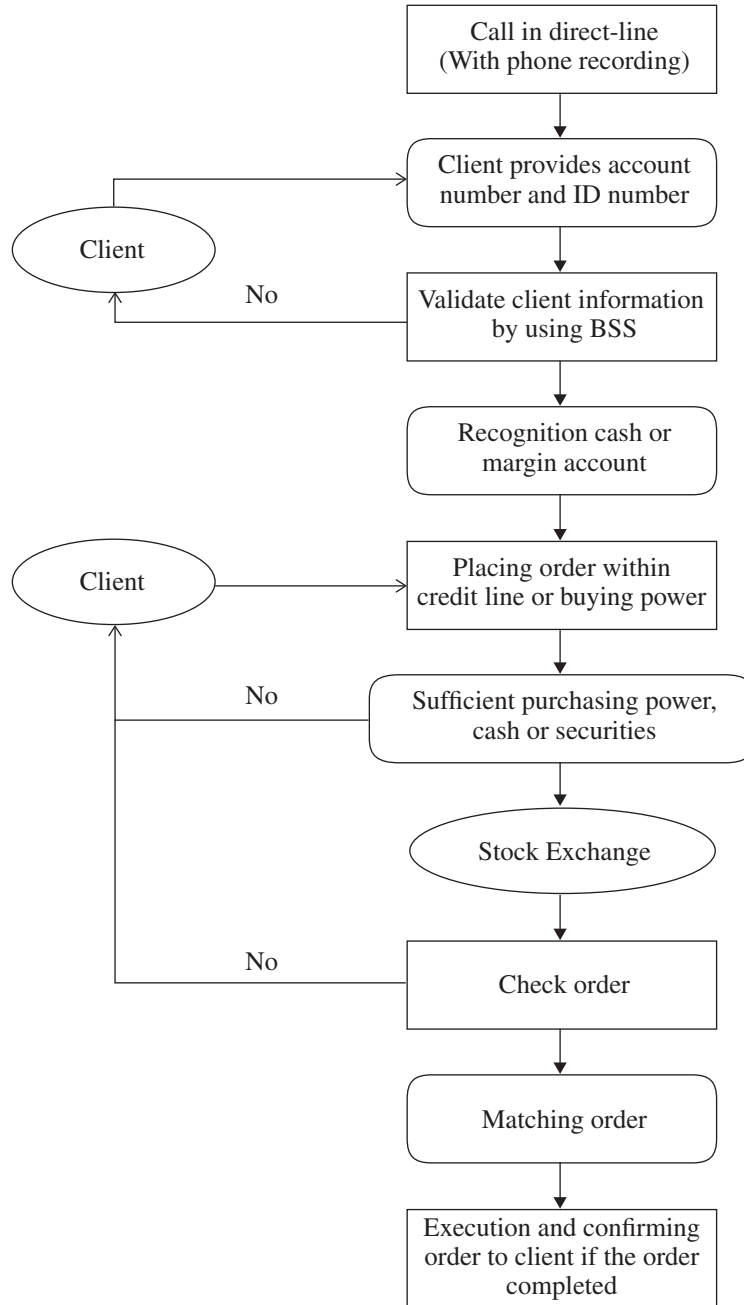
REP: Licensed Representative
 SM: Senior management
 SETT: Settlement department
 RO: Responsible Officer

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As detailed above, it is the duty of our Responsible Officers to approve trading and credit limits to all customers during the account opening process. Please refer to the paragraph headed "Internal control" in this section for further information regarding trading and credit limits.

Order taking process

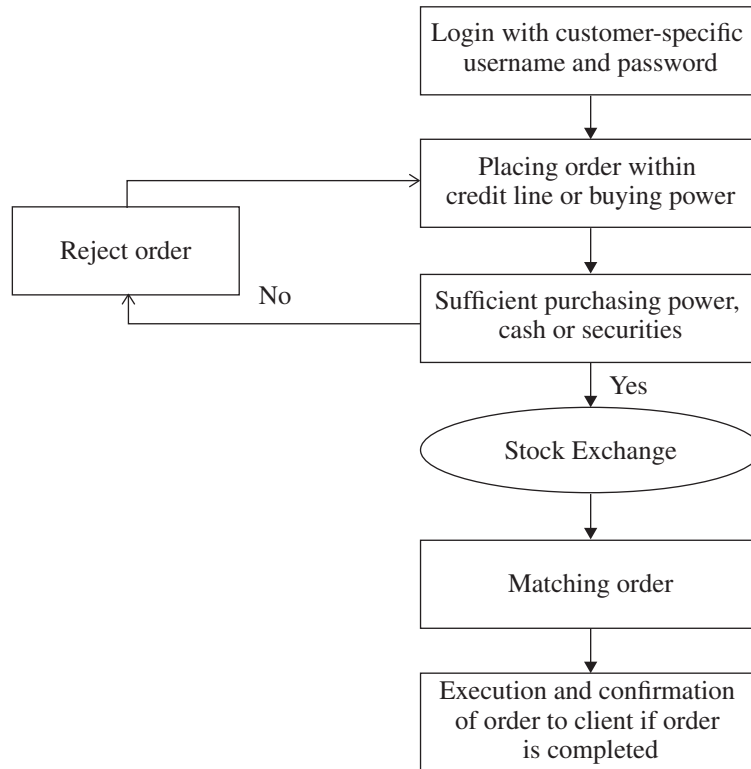
The following flowchart illustrates our order taking and securities dealing procedures for customers who place orders via telephone:



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As detailed in the flowchart above, the order taking process comprises various stages and checks so as to confirm the identity of the client and ensure that a client's order falls within his or her trading or credit limit.

The following flowchart illustrates our online trading platform's order taking and securities dealing procedures:



In addition to placing orders via telephone, customers may also use our internet trading platform, which was launched in February 2013. For more information on our internal control policies regarding online trading, please refer to the paragraph headed "Internal control" in this section.

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With regards to our margin financing service, our Responsible Officers are responsible for reviewing the daily margin call report, paying particular attention to those clients whose margin loan ratios are between 50.0% and 70.0%. Once a customer's margin loan ratio approaches 70.0%, we generally begin liaising with the customer and alerting him or her to the possibility of depositing further securities collateral, selling some of the securities collateral or depositing additional funds (essentially paying back some of the margin loan). We may, after taking into account factors such as, among others, prevailing market conditions (including any prevailing volatility), the composition of the stock portfolio, the customer's repayment record or margin ratio, initiate margin calls to the relevant customer to deposit additional securities. Customers must generally meet margin calls within 24 hours, but in the event of market volatility, customers may be required to settle margin calls within one hour. Should clients fail to settle margin calls within the required amount of time, their portfolios may be liquidated to the extent that the loan-to-value ratio of their portfolios decreases to an acceptable level once more. During the Track Record Period, all margin calls were met and we had no cause to liquidate any stocks pledged to us as collateral.

Our back office operations handle our settlement and accounting procedures. Combined daily statements are delivered to customers not later than 24 hours after a transaction has been made and monthly statements of account are required to be sent to customers in the first week of every month. We do not accept cash-in-hand deposits from our customers, and settlement can only be made via bank transfer, cheque or direct cash deposit into our bank account.

Pinestone Capital Group Limited

Our money lending service comprises three main stages, namely (i) loan application and approval; (ii) daily monitoring; and (iii) debt collection. During the loan application and approval process, customers undergo thorough "know-your-client" procedures designed to establish sufficient knowledge of a customer and his or her repayment ability. For loans secured with collaterals, our front office team conducts valuations of the proposed collateral with reference to, among other things, market value. The front office team also conducts a credit assessment to establish the creditworthiness of a customer. Loan applications are considered and approved by our Credit Committee.

During the monitoring process, our front office team monitors the repayment status of each loan and reports to the senior management from time to time. In the case of any outstanding amounts overdue for more than 45 days, as well as loans relating to bankrupt customers, we may appoint an external debt collection service provider to assist in the collection of such outstanding debt or take legal action such as repossession of pledged assets for secured loans. During the Track Record Period and up to the Latest Practicable Date, our Group did not appoint any debt collection service providers to assist in the collection of any outstanding debt owed to us. A customer may renew a loan subject to satisfaction of our detailed credit assessment, as above.

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NOTIFIABLE TRANSACTIONS

Whilst providing financial assistance to our customers is in our ordinary and usual course of business as a money lender, under Rule 19.04(8) of the GEM Listing Rules, the term "ordinary and usual course of business", in the context of financial assistance, only applies to a banking company, and not to a money lending company. In this regard, upon Listing, the financial assistance provided by us to our customers may (i) constitute notifiable transactions under Chapter 19 of the GEM Listing Rules which will be subject to the relevant notification, announcement and shareholders' approval requirements; and (ii) trigger disclosure requirements under Rule 17.15 of the GEM Listing Rules. As a result, our Group has put in place procedures to ensure that the requirements of the GEM Listing Rules, including those relating to Chapters 17, 19 and 20 of the GEM Listing Rules are complied with.

In the event that the aggregate amount of the principal and interest charged thereon in respect of a loan to be granted by our Group results in one or more of the percentage ratios under Chapter 19 of the GEM Listing Rules exceeding 25.0% but falling short of 100.0%, such a loan will constitute a major transaction under the GEM Listing Rules and will be subject to announcement and Shareholders' approval requirements under Chapter 19 of the GEM Listing Rules. As any loans approved by our management which constitute major transactions under the GEM Listing Rules may be approved by way of written resolutions passed by Mr. Henry Cheung and Mr. Jonathan Cheung, such loans will proceed without the need of convening a Shareholders' meeting to give prior approval, although the notification and announcement requirements under the GEM Listing Rules will still be complied with.

CUSTOMERS

We provide our services to a range of clients, including listed companies as well as individual and corporate clients with investment appetites for the securities of small- to medium-sized listed companies. For the purposes of analysing our Group's exposure, individuals and investment vehicles under their control will be viewed as one customer, and we will take into account income derived from all services rendered to each customer.

Our two executive Directors, Mr. Henry Cheung and Mr. Jonathan Cheung, are also customers of the Group and have their own margin accounts with PSL. For details, please refer to the section headed "Connected transactions" of this document. In addition, Ms. Chick, the spouse of one of the directors of PSL, has a cash account with PSL.

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Our top five customers in terms of revenue generated during the Track Record Period

For the two years ended 31 December 2013 and 2014, the largest customer for each of those two years accounted for approximately 27.8% and 12.9% of our revenue respectively, representing approximately 17.8% in aggregate of our total revenue during the Track Record Period. During the same period, revenue attributable to our top five customers in aggregate amounted to approximately 79.2% and 49.7% of our total revenue respectively. During the year ended 31 December 2013, given our limited operating history, we were still in the process of building up our client base and our loan portfolio, and as such, customers who utilised both our margin financing services and money lending services contributed to a significant portion of our revenue for that period. With the broadening of our client base and further growth of our loan portfolio, the concentration of our revenue derived from our top five customers decreased significantly to approximately 49.7% for the year ended 31 December 2014. Our Directors confirm that we will make conscious efforts to ensure that there is no over-reliance on our major customers. We closely monitor our customer portfolio to ensure that there is no over-reliance on any one single customer in order to minimise the credit risk faced by our Company should one of our major customers default on their repayment obligations. During the Track Record Period, we did not experience any customer default. During the Track Record Period, none of our Directors or their respective associates or the existing Shareholders who own more than 5.0% of our Company's issued share capital has had or has an interest in our top five customers. All of our top five customers for the two years ended 31 December 2013 and 2014 are Independent Third Parties.

During the Track Record Period and up to the Latest Practicable Date we had no long term agreements with any of our top five customers. As is the case with all of our customers, we have not and will not accept cash-in-hand deposits from our top five customers. For credit terms offered to our customers, please refer to the paragraph headed "Commission and interest rates" in this section for a detailed breakdown of our commission and interest rates charged. During the Track Record Period, we received no complaints from our customers.

The table below lays out the approximate revenue from our top five customers, the service type, their occupations and the years in which their business relationship with us began, for the two years ended 31 December 2013 and 2014.

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For the year ended 31 December 2013

Customer	Service type	Income contributed to our Group's revenue HK\$'000	% of revenue	Year in which business relationship began	Occupation
Customer A	Brokerage	43.6	0.3%	2013	Director of a private trading company
	Margin financing	112.2	0.7%		
	Money lending	4,420.8	26.8%		
	Total	4,576.6	27.8%		
Customer B	Brokerage	8.2	0.0%	2013	Investment holding company (Note 1)
	Margin financing	2,573.5	15.6%		
	Total	2,581.7	15.6%		
Customer C (Note 3)	Margin financing	2,463.9	15.0%	2013	Investment holding company (Note 2)
	Total	2,463.9	15.0%		
Customer D	Brokerage	44.9	0.2%	2013	Self-employed
	Margin financing	407.1	2.5%		
	Money lending	1,379.2	8.4%		
	Total	1,831.2	11.1%		
Customer E	Brokerage	15.6	0.1%	2013	Consultant
	Margin financing	0.2	0.0%		
	Money lending	1,580.5	9.6%		
	Total	1,596.3	9.7%		
Total		13,049.7	79.2%		

Notes:

- (1) This private investment holding company is a substantial shareholder of two companies listed on the Stock Exchange
- (2) This private investment holding company is a substantial shareholder of a company listed on the Stock Exchange
- (3) During the year ended 31 December 2013, no trading activity was recorded for this customer. As such, we did not derive any commission income from the said customer despite having extended a margin loan in January 2013.

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For the year ended 31 December 2014

Customer	Service type	Income contributed to our Group's revenue HK\$'000	% of revenue	Year in which business relationship began	Occupation
Customer F	Brokerage	1,073.6	3.3%	2014	Director of a private company
	Margin financing	1,874.2	5.7%		
	Placing	1,298.3	3.9%		
	Total	4,246.1	12.9%		
Customer D	Brokerage	326.2	1.0%	2013	Self-employed
	Margin financing	1,869.5	5.7%		
	Money lending	1,583.9	4.8%		
	Placing	99.8	0.3%		
Total	3,879.4	11.8%			
Customer A	Brokerage	118.5	0.3%	2013	Director of a private company
	Margin financing	1,150.0	3.5%		
	Money lending	2,578.8	7.8%		
	Total	3,847.3	11.6%		
Customer G	Brokerage	233.8	0.7%	2014	Managing director of an investment firm
	Margin financing	1,414.7	4.3%		
	Placing	906.8	2.7%		
	Total	2,555.3	7.7%		
Customer H	Brokerage	870.4	2.6%	2014	IT director
	Margin financing	872.8	2.6%		
	Placing	150.8	0.5%		
	Total	1,894.0	5.7%		
Total		16,422.1	49.7%		

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SUPPLIERS AND VENDORS

Due to the nature of our business activities, we have no suppliers.

We entered into an agreement with an independent information technology system vendor in 2012, pursuant to which our Group is entitled to use the vendor's system for our trading platform and for the provision of our online trading service. Our contract with the system vendor lasts for three years, and is subject to renewal in January 2016. As at the Latest Practicable Date, based on the system's performance thus far in that there have been no material disruptions, we currently expect to renew our contract with the system vendor. The system vendor also provides maintenance and support services for the system, including but not limited to a back-up cloud-based system to safely store information regarding trades and a firewall system to protect our Group from any cyber security breaches. During the Track Record Period, there were no material disruptions of the system which led to any disruption in our operations. The system vendor we have engaged is recognised by the Stock Exchange. Payment to the vendor by our Group is effected on a monthly basis by way of bank transfer or cheque. Please refer to the paragraph headed "Internal control" in this section for more information on our IT services and offsite backup system.

None of our Directors or their respective associates or the existing Shareholders who own more than 5.0% of our Company's issued share capital has any interest in any of our vendors.

SALES AND MARKETING

Our sales and marketing comprises sourcing new customers, opening customer accounts and handling customer enquiries. It is generally performed by our front office team. The opening of customer accounts is processed by Licensed Representatives and our settlement department and has to be approved by one of our Responsible Officers. Our front office team also regularly contact existing customers in order to maintain strong business relationships with them. We generally expand our new client network through referrals from our existing customers and the personal networks of our management.

The majority of our customers are individuals and corporations with investment appetites for the securities of small- to medium-sized listed companies who are most readily accessed via personal introduction. We consider client referrals and the personal networks and relationships of our management to be sufficient to attract the kind of customers we currently target in this regard. For more information, please refer to the paragraph headed "Business strategies" in this section.

We aim to continually improve the quality of our services by requesting customers to provide feedback on our business and our interactions with them. Moreover, we conduct reviews of our front office customer liaison procedures at regular management meetings in addition to reviews of our existing operational manuals in order to maintain optimal levels of customer satisfaction. During the Track Record Period, we received no complaints from any of our customers.

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We believe that the Listing will help promote our corporate image and act as a suitable platform which will enable potential clients to gain awareness of our bespoke services.

COMPETITION

As discussed in the paragraph headed "Overview" in this section, we believe that we occupy a position between the mass market retail brokerage houses and the institutional investment banks, the client base of which generally consists of large scale investment funds. Details of the competition that our Group currently faces and will continue to face are described in the section titled "Industry overview" of this document.

INTERNAL CONTROL

Under the Code of Conduct, a licensee should have internal control procedures and financial and operational capabilities which can be reasonably expected to protect its operations, customers and other licensed or registered persons from financial loss arising from theft, fraud and other dishonest acts, professional misconduct or omissions.

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

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

During the ordinary course of our business activities, we are exposed primarily to (i) credit risks in respect of our brokerage and securities-backed lending services; (ii) operational risks relating to our internal processes and our staff; (iii) regulatory risks in respect of compliance with rules and regulations; and (iv) anti-money laundering risk in respect of illegal or improper use of our operations. As part of our initiatives to manage these risks, we have established and implemented our compliance and operational manuals, which contain our credit policy, operating procedures and other internal control measures. We also established two operational committees on 4 February 2013, namely our Credit Committee, which as at the Latest Practicable Date comprised our two executive Directors and several members of senior management, to review and oversee the credit policies of our Group, and our Compliance Committee, which as at the Latest Practicable Date comprised our two executive Directors, several members of senior management and a vice-president, to ensure our Group's compliance with relevant rules and regulations and to oversee internal control matters. A summary of our key internal control policies and procedures is set out below.

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Credit risk management

Pinestone Securities Limited

Our brokerage and margin financing services are both susceptible to credit risk should customers fail to fulfill their payment obligations. As a result, we have implemented a credit control policy which our Directors and senior management believe to be effective in minimising the credit risk our Group faces. Any other transaction or product not covered by either our credit control or risk management policies is evaluated by our Credit Committee and incorporated into the aforementioned policies as the Credit Committee sees fit.

Before an account can be opened with us, we require all customers to go through our account opening procedures which aim, among other things, to ascertain the creditworthiness of a client and who the beneficial owner of the account is. The account opening process, which is handled by our front office team, is designed in such a way as to obtain satisfactory knowledge about a client. To this end, we encourage clients to open accounts in person at our office and in the presence of one of our Licensed Representatives or Responsible Officers. During the account opening process, our clients must sign an agreement absolving our Group and all of its officers and employees of any responsibility regarding any loss or liability which they may incur, unless due to fraud or willful default on the part of our Group or anyone employed therein. In doing so, our clients accept total responsibility for all trading decisions in their accounts and acknowledge that we are responsible only for the execution, clearing and carrying out of transactions in such accounts.

Given that payment for successful trades is settled on a T+2 basis, our Group is exposed to credit risk to the extent of the client becoming unable to pay for said trades in the intervening period between trade execution and settlement. As a result, trading limits are set for customers to mitigate some of the abovementioned credit risk. A trading limit is the amount of credit exposure which our Group can accept for a particular client for the duration of the T+2 period. Customers are not allowed to execute further securities purchases once their trading limit has been reached. Trading limits for cash and margin accounts are initially set to zero, and trading limits may be increased via application, which is considered and approved by the Credit Committee.

A credit line is the maximum loan facility granted to a margin client, and it is set after taking into account both current and potential risks of an individual client. Credit lines, which are approved by the Credit Committee, are observed strictly by our front office team, who are in turn closely monitored by our Responsible Officers in order to ensure adherence to the various limits granted. Credit lines and trading limits are determined with close reference to the creditworthiness of a customer, and for the former we review the collateral on offer in order to affirm the financial standing and repayment ability to this end.

For our margin financing business, our Company only accepts securities listed on the Stock Exchange as collateral for margin loans. On the basis of fundamental, technical and risk factors of the individual shares pledged as collateral, different levels of haircut are applied for credit extension purposes. In general, different levels of margin ratio, up to 70.0%, are

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assigned. These margin ratios represent the maximum percentage of financing that margin clients can get against the value of collateral shares in their accounts. In the event of any adverse movement in the prices of customers' pledged securities, we may make margin calls to the relevant customers. Customers subject to our margin calls are not allowed to execute further securities purchases unless they have deposited additional funds, sold their pledged securities or pledged additional securities to top up their margin value. In particular, we generally require all margin clients to maintain a margin loan ratio (which is the outstanding loan amount over the market value) of not more than 70.0% at all times. Should a client's margin loan ratio equal or exceed 70.0%, no new positions can be established, and if the margin loan ratio is not reduced to an acceptable level, the securities may be liquidated at our discretion.

Pinestone Capital Group Limited

Our Group adopts a strict set of credit policies with regards to the activities carried out under our Money Lenders Licence. All decisions made on loan applications are handled by our front office team and are subject to the approval of the Credit Committee. All new customers have to pass our financial background and credit checks before a loan account can be opened.

In addition, we may at our discretion require a guarantee from an Independent Third Party for individual and corporate customers and/or a guarantee from the shareholder and/or director for our corporate customers. In determining whether a guarantee is required to add further security to a loan, our front office team will, on a case by case basis, consider, among other things, the reason for the borrowing, the credit history of the customer with our Company, if any, the customer's financial background, the collateral on offer, its liquidity, its value and its type (i.e. blue chip, red chip, small- to medium-sized listed companies, etc.), the composition of the stock portfolio (e.g. single stock portfolio or multi-stock portfolio) and our credit exposure for the loan. As with the credit assessment of the customer, individuals providing a guarantee in favour of a loan are also required to meet the same basic eligibility and approval criteria, and will be required to go through the same verification and approval procedures. Once the guarantor is approved by us, the guarantor will be required to execute relevant documents to provide guarantee to the borrower.

Operational risk management

We have developed and implemented our account opening procedures in compliance with the Code of Conduct. We only take orders or instructions from customers and/or their authorised representatives provided that the customers have completed the account opening process, including the signing of account opening forms and client agreements. Please refer to the paragraph headed "Operations" in this section for a more detailed description of the account opening process. Our front office team has to observe the Code of Conduct and the PDPO when handling the personal data of customers, such as collecting copies of identity cards during the account opening process.

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Our front office team members responsible for handling customers' orders must be registered with the SFC as either a Responsible Officer or a Licensed Representative. We have established and implemented a policy for the recruitment, licensing and training of our staff to ensure that they are properly recruited, appointed, licensed and trained. We only employ persons who are fit and proper and competent to perform the duties for which they are employed.

We insist that all members of our front office team adhere to our securities dealing and related procedures. All customer orders should be received and/or confirmed to customers using our internal telephone recording system or processed through our online trading platform. All customer orders must be handled in a fair and equitable manner and in the sequence of receipt, with clear and comprehensive audit trails created to precisely record all orders from the time of origination through to order execution. The front office team must take all reasonable steps to ensure customer orders are executed promptly and in accordance with the customer's instructions. All customer orders are processed through our BSS, a system which facilitates our front office to process customers' orders efficiently. In addition, our BSS also has built-in monitoring and record keeping functions. For instance, cash balance and stock balance are displayed, and a warning message will appear in the case of a negative balance. All records shall be kept for seven years, apart from client instruction and order records which are to be retained for two years. Customer telephone records shall be kept for at least six months as required by the Code of Conduct. Customers of our internet trading platform are subject to the same stringent rules as our telephone customers.

Occasionally, error trades may occur during the course of our brokerage operations. It is our policy to immediately rectify any error trades by booking any gain or loss caused by such a trade into our error account. Error trades do not affect the value of a client's book in any way, as we bear the gain or loss resulting from any trading errors. In addition, our BSS has a built-in function to detect irregularities and can reject certain types of input error, thus minimising the possibility for error trades to occur. During the Track Record Period and up to the Latest Practicable Date, we recorded four error trades amounting to losses of approximately HK\$1,100 and HK\$4,100 for each of the two years ended 31 December 2013 and 2014 respectively, one of which was made upon testing our newly-installed online trading platform prior to its official launch. The amount of loss incurred in each instance was immaterial.

In order to safeguard client information and safely store customer order details and trading information, we have subcontracted our BSS to an external service provider which has been recognised by the Stock Exchange. All trading information is uploaded simultaneously to an offsite centre and is backed up on a daily basis. Customer telephone records are backed up on a daily basis onsite and are uploaded to an offsite centre for storage monthly.

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Regulatory risk management

Our Group is subject to a number of different regulatory requirements, and our securities brokerage arm in particular is required to comply with the FRR requirements, including maintaining adequate capital and liquid capital at all times. Our finance department is responsible for the preparation of the financial returns according to the requirements under the FRR. One of our Responsible Officers will review and sign off on the financial returns which shall be submitted no later than the 21st day of each calendar month. The finance department is also responsible for the monitoring of our compliance with the FRR on an ongoing basis. Liquid capital estimation is computed on a daily basis by our director of finance so as to ensure that timely information is conveyed to our management. The daily computation is reviewed by our senior management. In addition, we submit an FRR report to the SFC on a monthly basis.

The finance department closely monitors the daily reconciliation of customer trust bank accounts and our Group's bank account for funding and settlement purposes to ensure compliance with the Securities and Futures (Client Money) Rules.

Our Group and licensed persons are obliged to notify the SFC immediately in accordance with the notification requirements of the Code of Conduct and/or other guidelines, rules and regulations, where applicable. The requirement of notification extends to any material breach, infringement or non-compliance of market misconduct provisions set out in Part XIII or Part XIV of the SFO reasonably suspected to have been committed by customers, giving particulars of the suspected breach, infringement or non-compliance and relevant information and documents.

Compliance with the Personal Data (Privacy) Ordinance

In the course of our business, our Group has in its possession private and confidential personal data, and as such our operations in relation to such data are regulated by the PDPO. In particular, our Group falls within the definition of "data user", which is defined in the ordinance as "a person who, either alone, jointly or in common with other persons, controls the collection, holding, processing or use of the data" and hence is subject to the principles set out in the PDPO regarding the collection, use, retention, accuracy and security of and access to personal data. In this regard, our Group has established policies and procedures to ensure our compliance with the PDPO.

Anti-money laundering risk management

To mitigate our anti-money laundering risk, all of our staff members are required to adhere to the requirements set out in the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance and the SFC Guideline on Anti-Money Laundering and Counter-Terrorist Financing and any update relating thereto. We have also adopted the "policies, procedures and training" principle as provided in these guidelines by establishing and adopting policies and providing education and training to our staff on

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anti-money laundering. We also voluntarily conduct our procedures in line with the Guideline on Prevention of Money Laundering issued by the HKMA, despite the fact that we are not an Authorised Institution and thus are not obliged to follow such guidelines. Our guidelines on anti-money laundering are provided in our credit policies, Group-wide compliance manual and operation manuals provided to our staff to ensure that they are aware of the possibility of money laundering and their own personal legal obligations in relation thereto. In addition, we have also assigned one of our senior management to act as our anti-money laundering officer whose role it is to ensure compliance with the relevant rules and regulations regarding anti-money laundering.

In respect of our anti-money laundering efforts, we have adopted the "know your client" principle espoused in the guidelines mentioned above, whereby we ensure all potential customers provide us with proof of identity, their occupation, background and contact details, which we then process for verification. We maintain files on our computer systems and backups are made offsite of all customer information, including loan drawdown records of all past and present customers.

In addition, to prevent the risk of being involved in money laundering activities unintentionally, we do not handle cash disbursements to and cash receipts from our customers in the course of conducting our business. To this end, we insist that all repayments from customers are made via bank transfer, cheque or direct cash bank deposit. If we consider a repayment pattern to be suspicious, our anti-money laundering officer will be informed of such irregular behaviour immediately for his or her further handling, which may involve notifying the Joint Financial Intelligence Unit or any relevant regulatory bodies.

HISTORICAL COMPLIANCE MATTERS

At the beginning of our business operations, PSL obtained consent from two of our customers to re-pledge their securities collateral to an intermediary which was not an Authorised Institution in contravention of the SFCSR. The margin loan from said intermediary was obtained to extend margin financing of the same amount to the aforementioned clients and had since May 2013 been fully settled. This was a one-off transaction and the incident was an inadvertent oversight of requirements under the SFCSR. In this regard, we have (i) enhanced our internal control procedures to prevent future occurrence of such incident; and (ii) duly reported the incident to the SFC. The SFC noted the one-off incident and our rectification measures and up to the Latest Practicable Date, has taken no further action.

Directors and the Sponsor's views

Having considered (a) the fact that the incident was an inadvertent error and its one-off nature; (b) the background leading to the specific incident; (c) the status of this case; (d) no occurrence of an incident of the same nature thereafter; and (e) any potential liability with regards to the one-off incident identified is fully indemnified by the Controlling Shareholders under the Deed of Indemnity, our Directors are of the view, and the Sponsor concurs, that (i) the enhanced internal control measures adopted by our Group for this purpose are adequately

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designed and effectively implemented; (ii) the one-off incident identified does not affect the suitability of our Directors to act as directors under Rules 5.01 and 5.02 of the GEM Listing Rules; and (iii) the one-off incident identified does not affect the suitability for our Company's listing under Rule 11.06 of the GEM Listing Rules.

REGULATIONS, LICENCES AND TRADING RIGHTS

Type of licence	Effective date	Scope of licence	Status
SFO Type 1 licence	13 September 2012	Licence under the SFO to carry out Type 1 (dealing in securities) regulated activity	Valid
Exchange Participant Certificate (No. P1623)	3 December 2012	Allows corporation to trade on or through the Stock Exchange	Valid
Stock Exchange Trading Right (No. 1074)	3 December 2012	Allows corporation to trade on or through the Stock Exchange	Valid
Money Lenders Licence (No. 243/2014)	14 February 2014	Allows a person or corporation to lend money in Hong Kong	Valid until 14 February 2015 (Note)

Note: An application for renewal was submitted with regards to our Money Lenders Licence on 18 November 2014. We have received a letter of no objection to the renewal from the Commissioner of Police on 30 January 2015.

SFC licences

The securities market in Hong Kong is highly regulated. The principal regulatory bodies governing our business are the SFC and the Stock Exchange. Our business, and our responsible personnel, are subject to a number of legislations, regulations and the respective rules of the Stock Exchange and, upon Listing, the GEM Listing Rules.

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In particular, PSL is required under the SFO to be licensed with the SFC and be admitted as an Exchange Participant in order to conduct our business. Set out below is a summary of the relevant licences and trading rights currently held by PSL relating to its brokerage, margin financing and placing and underwriting services:

- (i) Licence under the SFO to carry out Type 1 (dealing in securities) regulated activity;
- (ii) Exchange Participant Certificate (No. P1623); and
- (iii) Stock Exchange Trading Right (Distinctive No. 1074).

According to Part 1 of Schedule 5 of the SFO, Type 8 regulated activity is "securities margin financing". According to Part 2 of Schedule 5 of the SFO, "securities margin financing" means providing financial accommodation in order to facilitate acquisition of securities and the continued holding of those securities, but does not include, inter alia, the provision of financial accommodation by a corporation licensed for Type 1 regulated activity. As PSL is licensed to carry out Type 1 (dealing in securities) regulated activity, it is excluded from the definition of "securities margin financing" as defined under Part 2 of Schedule 5 of the SFO and is not required to be further licensed to carry out Type 8 (securities margin financing) regulated activity.

The above licences and trading rights of PSL have no expiry date and will remain valid unless they are suspended or revoked by the SFC or the Stock Exchange.

The Responsible Officers for our Type 1 (dealing in securities) regulated activity during the Track Record Period and up to the Latest Practicable Date are Mr. Wong Wing Shing, Mr Wong Chi Kan and Ms. Ma Sai Wun Ginny.

Money Lenders Licence

Hong Kong's money lending industry is regulated and money lenders are required to be licensed as such under the Money Lenders Ordinance. The primary regulators of the money lending industry in Hong Kong include the Licensing Court, the Registrar of Money Lenders and the Commissioner of Police.

PCGL is licensed under the Money Lenders Ordinance to carry out money lending activities from our headquarters for a period of one year from 14 February 2014 till 14 February 2015. An application for renewal was submitted with regards to our Money Lenders Licence on 18 November 2014. We have received a letter of no objection to the renewal from the Commissioner of Police on 30 January 2015.

Our Group has obtained all material licences, permits or certificates necessary to conduct our business from the relevant governmental bodies in Hong Kong. Our Group complies with all applicable laws, regulations, rules, codes and guidelines in Hong Kong which are material to the business and operations of the Group. Details of the regulatory and licensing requirements are disclosed under the section headed "Regulatory overview" of this document.

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LITIGATION

As at the Latest Practicable Date, neither our Company nor any of our subsidiaries is engaged in any litigation or claims of material importance and no litigation or claims of material importance are known to our Directors to be pending or threatened against our Company or any of our subsidiaries.

DOMAIN NAME AND INTELLECTUAL PROPERTY RIGHTS

Our Groups currently owns the domain name *www.pinestone.com.hk*, which was registered on 11 April 2012 and is due to expire on 12 April 2015, subject to renewal. The registration prevents others from using our domain name during the subsisting registration period.

As at the Latest Practicable Date, our Group has not obtained registration of any trademark in relation to our business but is in the process of applying for the trademark below:

Trademark	Application number	Class	Name of applicant	Place of application	Date of application
PineStone 鼎石	303216276	36	Pinestone Capital Limited 鼎石資本有限公司	Hong Kong	27 November 2014

Unregistered trademarks and trade names can be protected by the common law action of passing off in Hong Kong. Up to the Latest Practicable Date, our Directors were not aware of any challenges by third parties against our Group's use of "Pinestone" in conducting our business. In the event of any such action by or against our Group, our Directors believe that we will be able to prove the goodwill and reputation of "Pinestone" under which our Group has been conducting our business since our establishment.

During the Track Record Period and up to the Latest Practicable Date, we have not been subject to any intellectual property infringement claim which would have had a material impact on our business, financial conditions or results of operations. Details of our intellectual property rights are set out in the paragraph headed "2. Intellectual property rights of our Group" in Appendix IV to this document.

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STAFF WORKING CONDITIONS, TRAINING AND INTEGRITY

Details of our Group's general working conditions as well as remunerations and employment benefits are set out in our staff handbook. For further details, please refer to the paragraph headed "Staff" under the section headed "Directors, senior management and employees" of this document. For staff training, our policy on employee dealing and our policy on anti-money laundering and counter-terrorist financing, please refer to the section detailing our current internal control measures as described in the paragraph headed "Internal control" in this section.

PROPERTIES

As at the Latest Practicable Date, we did not own any properties.

The address of our principal place of business is Unit 1506, 15th Floor, Wheelock House, 20 Pedder Street, Central, Hong Kong. We currently lease the office space at this address as our principal place of business in Hong Kong. We entered into an agreement with a landlord whereby we would rent the property for a period of three years starting 10 October 2012. The rental cost (including service fees) of these premises amounted to approximately HK\$1.4 million and HK\$1.4 million for the two years ended 31 December 2013 and 2014 respectively. No valuation report for this office space has been included in this document as it is exempted under section 6 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L).

INSURANCE

As required under the Securities and Futures (Insurance) Rules, our Group has taken out insurance for our regulated activities for events such as loss of client assets due to theft by employees or other fraudulent acts stipulated in our insurance policy. We also provide medical insurance to our employees. The aggregate premium of all of our insurance policies amounted to approximately HK\$24,000 and HK\$39,000 for the two years ended 31 December 2013 and 2014. As the major aspects of our operations have been covered by insurance, we believe our Group has taken out adequate insurance in line with industry standards to cover our assets and our employees. During the Track Record Period there were no material insurance claims.