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## INDUSTRY OVERVIEW

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### ABOUT THIS SECTION

This “Industry Overview” section contains information extracted from a report commissioned by us prepared by Frost & Sullivan for purposes of this document (“**Frost & Sullivan Report**”). We have paid a total of RMB400,000 to Frost & Sullivan for the preparation and use of the Frost & Sullivan Report.

### About Frost & Sullivan

Frost & Sullivan is an independent global consulting firm founded in 1961. It offers industry research, market strategies and provides growth consulting and corporate training. Its industry coverage includes automotive and transportation, chemicals, materials and food, commercial aviation, consumer products, energy and power systems, environment and building technologies, healthcare, industrial automation and electronics, industrial and machinery, and technology, media and telecom. The Frost & Sullivan Report includes information on data of the Hong Kong securities market.

### Research methodology and assumptions

In the preparation of the Frost & Sullivan Report, Frost & Sullivan conducted detailed primary research that involved in-depth discussions with the SFC, Hong Kong Exchanges and Clearing Limited (the “**HKEX**”), and leading industry participants. Frost & Sullivan also conducted secondary research that included reviewing company annual reports, independent research reports and data from its own research database. Frost & Sullivan obtained the figures for various market size estimates from historical data analysis plotted against macroeconomic data, as well as its consideration of the related industry drivers. Frost & Sullivan’s forecasting methodology integrates several forecasting techniques with its internal analytics of critical market elements that it investigated in connection with its market research work. These elements include expert opinion, integration of market drivers and restraints and integration of market challenges. In preparing its report, Frost & Sullivan assumed: (i) the social, economic and political environment will remain stable from 2016 to 2020, and (ii) key industry drivers will continue to affect the market from 2016 to 2020.

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### OVERVIEW OF THE HONG KONG CAPITAL MARKET

#### Hong Kong as a leading global stock market

Situated in the heart of Southeast Asia, Hong Kong has long been recognised as a major international financial centre. From 1986 to 2010, fueled by Open-door Policy of China and robust growth of Hong Kong's economy, together with the increasing modernisation and internationalisation of Hong Kong's stock market, the securities market of Hong Kong had undergone a remarkable expansion. Since 2010, benefited by the unique position of Hong Kong being an international financial hub and the gateway to China, the Hong Kong securities market quickly rebound after the global financial tsunami in 2008 and successfully rode on a new wave of growth of China economy and evolved to be one of the world's largest securities markets.

As of 30 June 2016, HKEX had a market capitalisation of US\$2,972.6 billion, ranked eighth among the world's top stock exchanges. The table below sets out the market capitalisation of the world's top stock exchanges as of 30 June 2016:

Ranking	Stock Exchange	Market Capitalisation (US\$ billion)
1.	NYSE Euronext (US)	18,711.3
2.	NASDAQ OMX (US)	7,063.6
3.	Japan Exchange Group	4,686.5
4.	Shanghai Stock Exchange	3,776.6
5.	London Stock Exchange Group	3,600.4
6.	NYSE Euronext (Europe)	3,286.2
7.	Shenzhen Stock Exchange	3,190.8
8.	<b>HKEX (Hong Kong Exchanges and Clearing Limited)</b>	2,972.6
9.	TMX Group (Toronto, Canada)	1,868.7
10.	Deutsche Börse (Germany)	1,539.1

*Source: The World Federation of Exchanges; Frost & Sullivan*

### HONG KONG SECURITIES, FUTURES AND OPTIONS MARKET OVERVIEW

#### Exchange participants

In order to trade in securities through the trading facilities of the HKEX, a market participant shall, among other things, hold a trading right and be an Exchange Participant. It must also be a corporation licensed under the SFO to carry out Type 1 (dealing in securities) regulated activity and comply with the financial resources requirements as specified by the Financial Resource Amendment Rules ("FRR") and the HKEX. The major Exchange Participants are divided into three categories by the HKEX based on their market turnover:

Classification	Constituents	Composition
Category A	14 largest corporations	Mainly overseas (European and American) large-scale investment banks
Category B	15th to 65th largest corporations	Mainly PRC-funded securities companies and large-scale Hong Kong corporations
Category C	Corporations with rankings behind 66th	Mainly small-scale Hong Kong corporations

#### Stock market

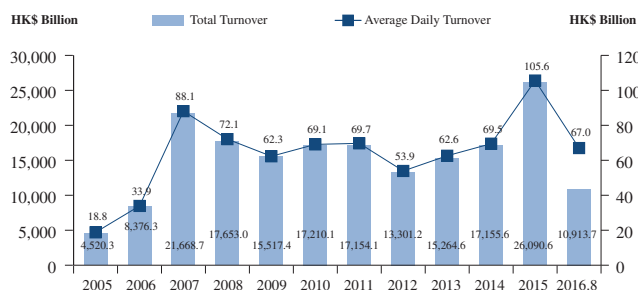
Total market turnover increased dramatically in 2007 due to the announcement of the introduction of Hong Kong Stock Market Through-Train Program by State Administration of Foreign Exchange (SAFE) in August 2007. However, the postponement of the program by the State Council of China in November and the influence of the subprime crisis of U.S. cooled

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down of the market turnover in 2008 and 2009. Affected by the European debt crisis, and unfavourable global economic development, Hong Kong stock market had experienced a significant decrease in total turnover. Along with gradual recovery of global economy, as well as the introduction of PRC funds, the total turnover of Hong Kong stock market experienced dramatic growth from HK\$17,155.6 billion in 2014 to HK\$26,090.6 billion in 2015. Benefitted from the Shanghai-Hong Kong Stock Connect program, a large amount of capital was introduced into Hong Kong stock market – since the official introduction of the program till 31 December 2015, the turnover through the program in Hong Kong stock market reached HK\$472.0 billion, which also fueled the increase of turnover of HKEX despite the weak market sentiment during the second half of 2015. Along with the continuous convergence of incoming and existing capital, the total turnover is expected to be stabilised in the coming years.

As one of the most liquid securities markets worldwide, Hong Kong market was affected negatively by several factors in the first half year of 2016. These factors include the slowdown of growth of Chinese economy, capital outflow caused by increase of interest rates of FED (the Federal Reserve), expectations on depreciation of RMB, and so on. However, along with the forthcoming launch of Shenzhen-Hong Kong stock connect program and the continuous economic restructuring in mainland China, Hong Kong market is expected to maintain a stable outlook.

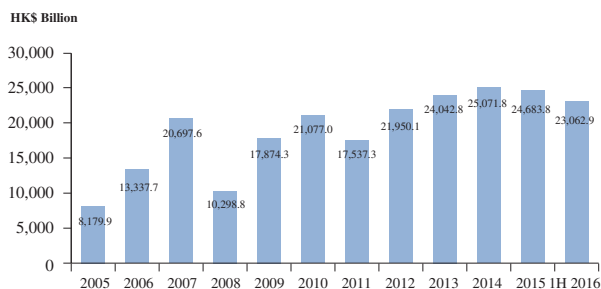
### Total turnover and average daily turnover of Hong Kong stock market, 2005-August 2016



Source: SFC; Frost & Sullivan

Along with the fluctuation of Hong Kong stock market with global economy and PRC policies regarding investments in Hong Kong, the market capitalisation has experienced undulation in the past ten years. Affected by European debt crisis, global financial market experienced a turbulent situation in 2011. Hong Kong financial market was also witnessed a decrease in market capitalisation of 16.8% from HK\$17,537.3 billion in 2011 compared to HK\$21,077.0 billion in 2010. Overall speaking, despite the fluctuation due to financial crisis in 2008, the market capitalisation has steadily increase from HK\$8,179.9 billion in 2005 to HK\$24,683.8 billion in 2015, representing a CAGR of 11.7% during the past ten years.

### Market capitalisation of Hong Kong stock market, 2005-1H 2016



Source: SFC; Frost & Sullivan

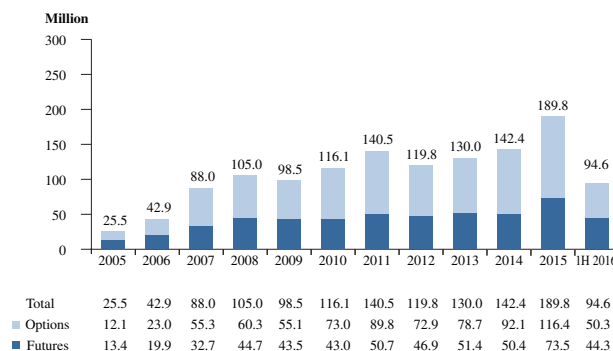
### Futures and options market

Hong Kong securities market is one of the pioneers among Asian markets with futures and options business. Since 1986 when the first futures contract was introduced, Hong Kong securities market has been committed to consistently innovating in the product categories of futures and options, promoting the sustained increase of contracts number. Total numbers of

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futures and options contracts increased from 13.4 million and 12.1 million in 2005 to 73.5 million and 116.4 million in 2015, representing CAGR of 18.6% and 25.4% respectively. Although the market has experienced fluctuations from 2010 to 2012, the contract number of futures and options steadily increased from 46.9 million and 72.9 million respectively in 2012 to 73.5 million and 116.4 million respectively in 2015.

### Numbers of futures and options contracts in Hong Kong, 2005-1H 2016



CAGR	Futures	Options	Total
2005-2015	18.6%	25.4%	22.2%

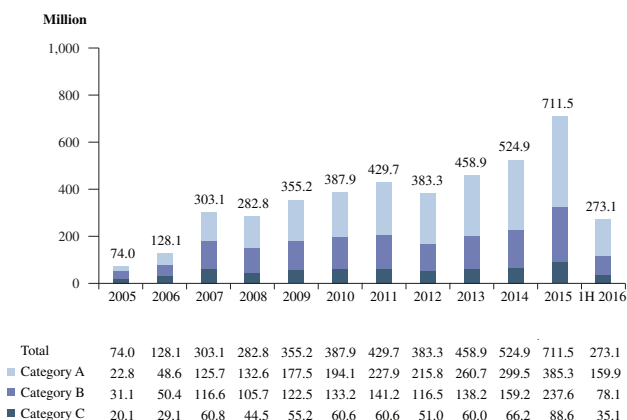
Source: SFC; Frost & Sullivan

### Securities brokerage industry

Securities brokerage business refers to a business in which the brokers accept the delegation of the investors and on behalf of the investors buy or sell various types of securities, mainly stocks, bonds, futures, options, and other derivatives. Securities brokerage business in Hong Kong is commission based, and the commission rate varies from 0.1% to 0.25%, depending on various factors such as the scale of the deal.

Hong Kong securities market follows “Broker Trade Mode”, in which securities companies expand their client bases and provide brokerage services mainly through brokers. In Hong Kong, securities companies will concentrate all their clients’ stocks and deposit them to the clearing house. Usually brokerage firms have full control over investors’ stocks. If the securities companies go bankrupt, the stocks deposited in the securities companies will be liquidated.

### Number of transactions by category of Exchange Participants, 2005-1H 2016



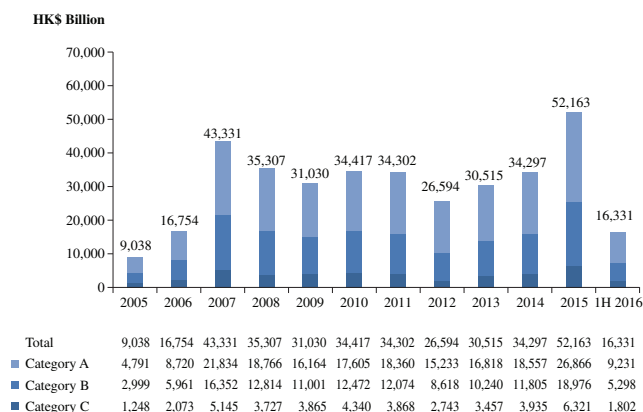
CAGR	Category A	Category B	Category C	Total
2005-2015	32.7%	22.6%	16.0%	25.4%

Note: Both buy and sell transactions have been counted in the calculation.

Source: SFC; Frost & Sullivan

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### Transaction value by category of Exchange Participants, 2005-1H 2016



CAGR	Category A	Category B	Category C	Total
2005-2015	18.8%	20.3%	17.6%	19.2%

Note: The total turnover of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas. Both buy and sell transactions have been counted in the calculation.

Source: SFC; Frost & Sullivan

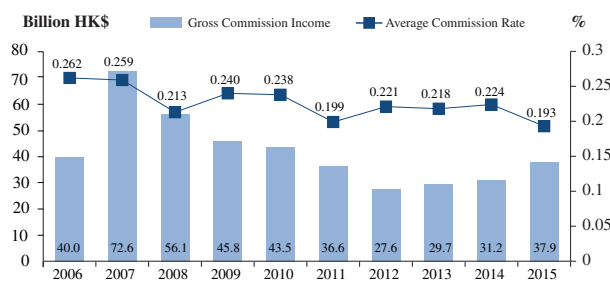
### Proportion of Exchange Participants in terms of transaction value, 2012-2015

Participants	2012	2013	2014	2015
Category A	57.3%	55.1%	54.1%	51.5%
Category B	32.4%	33.6%	34.4%	36.4%
Category C	10.3%	11.3%	11.5%	12.1%

Source: SFC; Frost & Sullivan

As illustrated above, corporations in Category A have a remarkable leading advantage in terms of number of transactions as well as transaction value in the securities brokerage market in Hong Kong; however, they have experienced a decline in total market share in terms of transaction value from HK\$15,233 billion in 2012 to HK\$26,866 billion in 2015. On the other hand, during the same period, the total market share of corporations in Category B increased from HK\$8,618 billion to HK\$18,976 billion, representing a market share increase from 32.4% to 36.4% respectively. The increase was mainly contributed by the expansion of companies with PRC background into Hong Kong stock market. Benefited from the increasing liberalisation of PRC capital in international market, the increasing investment demand of PRC investors in Hong Kong stock market became another important growth driver of market share of Exchange Participants within Category B. The trend also signaled the further growth of business scale and market share of PRC-funded securities companies in the Hong Kong securities market.

### Total gross securities commission income and average commission rate of securities Brokers, 2006-2015



Note: Total gross securities commission income refers to the commission income of all the securities brokers in Hong Kong from trading securities for clients.

Source: Frost & Sullivan

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### Competitive landscape of securities brokerage industry in Hong Kong

Up to 30 June 2016, there were 582 trading right holders registered in the HKEX, comprised of 530 trading Exchange Participants, 36 non-trading Exchange Participants, and 16 non-exchange participants.

There are mainly three types of market players, including international large-scale investment banks, PRC-funded securities companies and local securities companies. Local companies represent the largest player group, which accounted for 82.0% of the total number of market players in 2015. Up to the end of 2015, there were more than 70 PRC-funded securities companies in the market, which accounted for 12.0% of the total number of market players. In order to penetrate into Hong Kong market, many PRC-funded securities companies established subsidiaries in Hong Kong, and applied for corresponding licenses to carry out related business in Hong Kong market. Among all these players, international investment banks and large-scale PRC-funded players have occupied comparatively large market share in terms of number of transactions and turnover. Taking into consideration of total revenue of securities brokerage business, derivatives business, corporate finance business, and asset management business in 2015, all PRC-funded players can be divided into three groups.

### Competitive landscape of PRC-funded securities companies, 2015

Category	Number of Players	Revenue	Leading Players
Tier 1 Group	Around 8 Players	Equal to and More than HK\$1 Billion	CITIC Securities International Co. Ltd., Haitong International Securities Group Ltd., Guotai Junan International Holdings Ltd., etc.
Tier 2 Group	Around 20 Players	Less Than HK\$1 Billion, and More than HK\$100 Million	China Everbright Securities (HK) Ltd., China Merchants Securities (HK) Co., Ltd., CCB International (Holdings) Ltd., Industrial Securities (HK) Financial Holdings Ltd., etc.
Tier 3 Group	Around 45 Players	Equal to and Less than HK\$100 Million	Southwest Securities International Securities Ltd., Orient Finance Holdings (Hong Kong) Limited

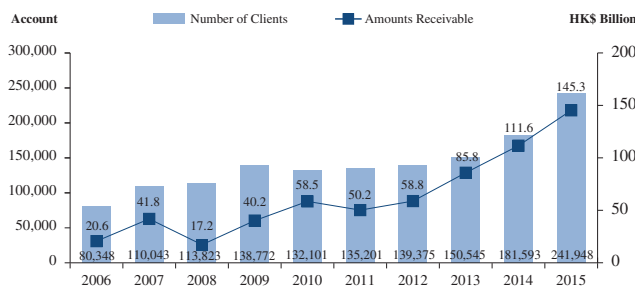
Source: SFC; Annual Reports of Hong Kong listed companies; Frost & Sullivan

### Other Types of Business of Securities Brokers in Hong Kong

#### Securities Margin Financing:

Securities margin financing refers to the business type in which the brokers lend money to borrowers with their securities as collaterals. Borrowers are clients of brokerage firms. With money lent from brokers, borrowers can raise the leverage for higher returns through buying equity or debt securities. At the same time, brokers can achieve diversification of revenue sources by generating interest from such business.

### Number of active margin clients and amounts receivable, 2006-2015



Source: SFC; Frost & Sullivan

Total number of active margin clients and amounts receivable from margin clients have experienced slight fluctuations since 2006 but generally exhibit an increasing trend since 2011. From 2005 to 2015, total number of active margin clients increased from 80,348 to 241,948 at a CAGR of 11.7%, and amounts receivable has grown from HK\$20.6 billion to HK\$145.31



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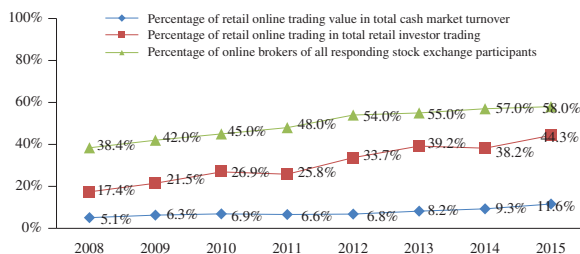
billion at a CAGR of 21.6%. The rapid growth was mainly attributable to the increasing financing demand in Hong Kong. Also, the continuous progress of developing margin financing service/products has driven the application of margin financing among money borrowers.

### Market trends of securities brokerage business in Hong Kong

#### *Emerging online brokerage business:*

Rapid development of internet and mobile internet technologies in PRC has stimulated the increasing penetration of online brokerage business. Online brokerage business did not have high popularity among investors in Hong Kong in early years. In recent years, increasing attention has been drawn to the growth of online trading which witnessed rapid penetration into local retail brokerage market in Hong Kong. Along with the flourishing of internet and digital network, online brokerage is becoming increasingly popular amongst local investors in the securities market. The average commission rate of brokers who take telephone orders from clients is expected to experience a downward pressure, as the result of competition with the online brokerage services which charge lower commission rate.

#### Percentage of online brokerage business in cash market transaction survey, 2008-2015



*Note:* The Cash Market Transaction Survey has been conducted annually by HKEX to study the trading composition of stock exchange participants. The annual survey covers both Main Board and GEM for the 12-month period from October of previous year to September of current year.

*Source:* Cash Market Transaction Survey of HKEX

#### *Diversified service mode:*

There are over 500 securities brokers from PRC, Hong Kong and overseas competing in Hong Kong securities market. To better serve various clients' demands and compete for market share, besides traditional brokerage services, brokers are expected to provide more value-added services, including securities information consultation services and asset portfolio analysis to attract new clients, maintain existing ones and strengthen their competitiveness. At the same time, favourable brokerage charges are offered by brokers to clients. Government in Hong Kong does not interfere with this situation, in order to maintain a free competition market environment, therefore, the commission rate is expected to maintain a decreasing trend.

## INVESTMENT BANKING

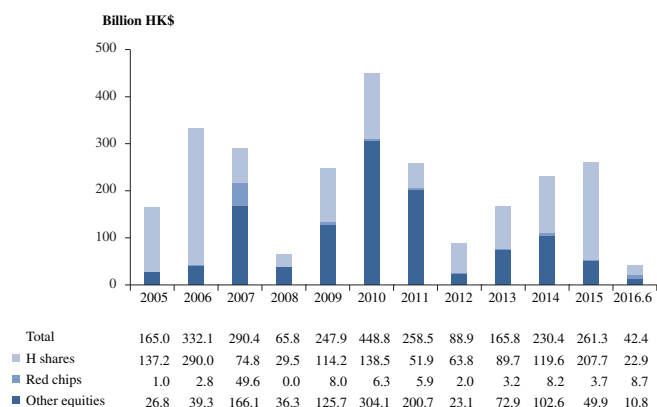
Investment banking generally refers to the business of advising on corporate finance. Under the SFO, institutions with such practices are requested to be licensed with Type 6 License (Advising on corporate finance) or registered under the SFO for conducting corporate finance advisory business as a licensed representative, licensed corporation or registered institution.

Listed companies fund their operations through equity (e.g. issuance and offer of shares) and debt (e.g. loan borrowing, bond issuance) financing. Most companies use a combination of these two types of financing in the course of their business cycle.

Total funds raised through IPO had fluctuated from 2005 to 2015 with the development of global macro economy, and reached HK\$261.3 billion in 2015. Since 2012, as more quality PRC enterprises chose to launch their IPOs in Hong Kong market, funds raised through H shares have maintained market share of over 50% in total funds raised. In 2015, the percentage has reached 79.5%, which reflects the increasingly important position of PRC enterprises in Hong Kong IPO market. Meanwhile, funds raised through red chips have experienced the fastest growth with a CAGR of 14.0% from 2005 to 2015, which represents high recognition of listed and potential IPO companies on advantages of red chips, including loose listing requirements, favourable listing costs, and strong refunding capabilities.

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### Funds raised through IPOs, 2005-2016.6



CAGR	H share	Red chips	Other equities	Total
2005-2015	4.2%	14.0%	6.4%	4.7%

Source: SFC; Frost & Sullivan

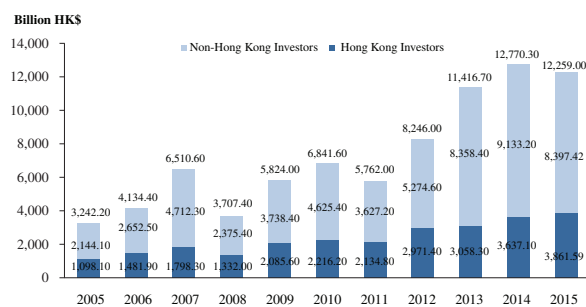
### Competitive landscape in Hong Kong

There were in total 143 financial institutions or banking group or their respective associates engaged in the underwriting activities in Hong Kong by the end of 2015. Similar to the competitive landscape of securities brokers in Hong Kong, international large-scale investment banks have occupied leading positions in Hong Kong, while PRC-funded underwriters have played increasingly important roles, along with surging fund raising demand of PRC companies. According to Bloomberg, among top 30 underwriters in 2015, there were 15 with PRC background, in which China Industrial Securities International Capital Limited (formerly known as Industrial Securities (Hong Kong) Capital Limited), being the wholly-owned subsidiary of China Industrial Securities International Financial Group Ltd., ranked 27th in terms of underwriting amount in 2015. China Industrial Securities International Capital Limited was also ranked the 14th largest PRC-funded underwriters in Hong Kong in 2015.

### ASSET MANAGEMENT

Asset management refers to the asset trust and management of the securities companies holding Type 9 license (Asset management), including mainly fund management, and other related services. Securities companies manage assets of various types (shares, bonds and derivatives) and other assets (e.g., real estate) in order to meet specified investment goals for the benefit of the investors. Funds from non-Hong Kong investors accounted for more than 70% of the asset management business and increased by 9.3% to HK\$9,133.20 billion from 2013 to 2014. About 20% of the asset management business was invested in Hong Kong in 2014. According to the SFC, assets invested in Hong Kong grew by 6.5% to HK\$2,605.45 billion at the end of 2014. Given the relatively better performance of other markets (including the Mainland), more funds were invested outside Hong Kong.

### Asset management business by sources of funds, 2005-2015



CAGR	Sourced from Hong Kong	Sourced Outside Hong Kong	Total
2005-2015	13.40%	14.63%	14.23%

Source: SFC; Frost & Sullivan



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### MARKET DRIVERS

The Hong Kong capital market has experienced a long history of development. The main drivers include the following:

#### Internationalised capital market

The internationalisation of the Hong Kong capital market is featured by its high level of openness to and freedom of capital flow, and the active participation of global financial institutions. Almost all well-known international investment banks have set up branches in Hong Kong, mostly as their Asia-Pacific headquarters. There is no limit on foreign investments imposed in the Hong Kong stock market. Meanwhile, local investors can freely participate in investment in overseas markets such as Singapore, London, and New York. Such free flow of capital and barrier-free investment attracted overseas institutions and made significant contribution to the development of the Hong Kong capital market.

#### Diversified funding sources

The Hong Kong capital market has a mature system of market operation rules after decades of development, allowing the use of diversified financial instruments and mergers and acquisitions and financing activities to be conducted conveniently. Accordingly, financing activities are greatly functional in Hong Kong and IPOs and secondary offerings are expected to continue to attract foreign investments compared to the stock market in other jurisdictions which is not as open and transparent as that in Hong Kong.

#### Mature trading and clearing system

In March 2014, HKEX launched its first mainland infrastructure basis – Mainland Market Data Hub (MMDH), aiming at strengthening the connection of HKEX and mainland stock exchange markets and provide mainland investors with reliable, extendable and cost-efficient infrastructures. In the same month, HKEX Orion Market Data Platform (OMD) was launched. In December 2014, OMD in derivatives market (OMD-D) was launched as well. HKEX OMD is an integrated low-latency platform to deliver market data for all asset classes traded on HKEX markets in a common message format. OMD provides a suite of market data product feeds with content, market depth and bandwidth requirements tailored to suit the needs of different types of client. Employing industry leading low latency technology, OMD delivers vital pricing data to subscribers rapidly and efficiently. The platform also enables HKEX to establish points of presence for market data distribution outside of Hong Kong, such as China. These initiatives are expected to benefit market participants by lowering the costs and increasing efficiency.

#### Evolving and comprehensive regulatory regime

Implemented in 2003, the SFO provides the legal regime for comprehensive supervision of the securities industry, while the functioning of the Hong Kong capital market is regulated by the rules and regulations of the Stock Exchange. The supervision of the SFC and HKEX on Hong Kong capital market ensures regular and normative operation of the market, and strengthens and protects the integrity and soundness of Hong Kong's securities and futures markets for the benefit of investors and the industry. In 2014, the Shanghai-Hong Kong Stock Connect program was launched to establish mutual stock market access between Hong Kong and PRC. In December 2014, Hong Kong Monetary Authority (HKMA) introduced two measures, namely (i) streamlining of tenors of bonds issued under the Exchange Fund Bills and Notes (EFBN) Program and the Hong Kong Government Bonds (GB) Programme; and (ii) discount facility for Hong Kong Government Bonds, to further promote local Hong Kong dollar bond market development.

#### Diversified financial products

New products and financial instruments keep spring up in the capital market of Hong Kong. The securities market of Hong Kong is composed by equity securities, debt securities, and multiple types of trusts, funds, as well as structured products. Beyond that, HKEX provides derivative products since 1986, which by now has expanded into five categories products, including equity index products, equity products, RMB currency futures, interest rate products, and warrants. HKEX also provides clearing services in over-the-counter derivatives market. Hong Kong capital market diversifies the type of its product by the time to achieve development all the time.

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### Investment globalisation of PRC investors

Along with the introduction of Shanghai-Hong Kong Stock Connect Program, the efforts in investment and currency globalisation have been stepped up. As an international financial hub and offshore Renminbi centre backed by mature financial and transparent legal systems, Hong Kong capital market will continue to be benefited by the influx of larger amount of capitals from China. The proliferation and increasing internationalisation of PRC stock market have also been attracting increasing attention of and investment from overseas investors into China. Meanwhile, due to the continuous adjustment of deposit interest rate, PRC investors will tend to seek for investment opportunities with higher returns, and therefore the demand for investment in capital market from PRC investors is expected to increase in the future, which will also drive the growth of Hong Kong capital market serving as a bridge between mainland and overseas markets.

### Continuous development of the PRC macro-economy

According to HKEX, the number of PRC companies accounted for nearly 60% of total number of HKEX listed companies, and the turnover generated from PRC companies represented nearly 70% of the total turnover of HKEX in 2015. The stable growth of the PRC macro-economy and continuous development of various industries together with the investment globalisation of the PRC investors as mentioned above are expected to continue to drive the performance of Hong Kong capital market and foster the sustainable development of Hong Kong as an attractive investment platform for capital from PRC.

## ENTRY BARRIERS TO THE HONG KONG CAPITAL MARKET AND CHALLENGES

The main entry barriers into the Hong Kong securities market include the following:

### Regulatory requirements

The SFC is responsible for regulating the securities and futures markets in Hong Kong. The SFO, along with its subsidiary legislations, are the principal legislations to regulate the securities and futures industry in Hong Kong. The SFC operates a system of authorising corporations and individuals to act as financial intermediaries through licenses. Through licensing, the SFC regulates the financial intermediaries of licensed corporations and individuals that are carrying out the regulated activities, including mainly dealing in and advising on securities and futures, leveraging foreign exchange trading, asset management, and so on. As a highly regulated industry, the cost for new entrants to comply with and fulfill licensing conditions and ongoing regulatory requirements is very high.

### Fierce competition

Along with the continuous development of the Hong Kong capital market and connections with the PRC market, various types of companies, including international large-scale investment banks, PRC-funded securities groups, and local securities companies, are competing intensively for larger market share. Leading players in the industry usually have years of experience, pool of talents, sound reputation, large client base and network accumulation in the market, with mature business models and operational processes. Compared with large-scale leading players, new entrants may face the risk and challenge of limited and inadequate resources in terms of pricing, project scale and turnover, client base, talent and capital.

### Requirement to comply with the FRR

The FRR applies to all corporations licensed to conduct one or more type of regulated activities. They are designed to address risks arising from various aspects of the regulated activities carried out by licensed corporations and aim to ensure that licensed corporations have sufficient liquid assets to meet ongoing liabilities as they fall due. Licensed corporations are required to comply with the capital requirements of the FRR in order to become and remain licensed by the SFC. As a safeguard against non-compliance, licensed corporations are required to periodically report their financial positions to the SFC. New entrants and existing licensed corporations will face challenges from meeting the requirements regulated by the FRR.