REGULATORY ENVIRONMENT IN HONG KONG

There are no general restrictions restricting PRC nationals from trading in the Hong Kong stock market under the PRC Laws and regulations applicable to the Group. This section sets out summaries of certain aspects of the regulatory environment in Hong Kong, which are relevant to our Group's business and operation.

(A) REGULATIONS AND SUPERVISION OF THE SECURITIES BUSINESS IN HONG KONG

Securities and Futures Commission

Regulation of the securities and futures market

The SFO is the primary legislation regulating the securities and futures industry in Hong Kong, including the regulation of securities, futures, leveraged foreign exchange and derivative markets as well as credit ratings, intermediaries and their conduct of regulated activities and the offering of investments to the public in Hong Kong.

The SFC is an independent statutory body which administers the SFO and is responsible for regulating the securities and futures market in Hong Kong. The SFC strives to strengthen and protect the integrity and soundness of Hong Kong's securities and futures markets for the benefit of investors and the industry.

The SFC's regulatory objectives as set out in the SFO are:

- to maintain and promote the fairness, efficiency, competitiveness, transparency and orderliness of the securities and futures industry;
- to promote understanding by the public of financial services including the operation and functioning of the securities and futures industry;
- to provide protection for members of the public investing in or holding financial products;
- to minimise crime and misconduct in the securities and futures industry;
- to reduce systemic risks in the securities and futures industry; and
- to assist the Financial Secretary of Hong Kong in maintaining the financial stability of Hong Kong by taking appropriate steps in relation to the securities and futures industry.

Parties and products regulated by the SFC include, but are not limited to, licensed corporations and individuals carrying on Type 1 to Type 10 regulated activities under the SFO, investment products offered to the public, listed companies, the Stock Exchange, approved share registrars and all participants in trading activities.

Securities and Futures Ordinance

Licensing regime

The SFC operates a system of authorising corporations and individuals (through licences) to act as financial intermediaries.

Under the SFO, a person who:

(a) carries on a business in a regulated activity; or

(b) holds itself out as carrying on a business in a regulated activity,

must be licensed under the relevant provisions of the SFO to carry on that regulated activity, unless one of the exceptions under the SFO applies. In addition, only a company incorporated in Hong Kong or an overseas company registered under Part 16 of the Companies Ordinance as a non-Hong Kong company can be licensed to carry out a regulated activity under the SFO.

Further, if a person actively markets (whether in Hong Kong or from a place outside Hong Kong) to the public in Hong Kong any services it provides and such services, if provided in Hong Kong, would constitute a regulated activity, then that person will also be subject to the licensing requirements under the SFO.

In addition to the licensing requirements on corporations, any individual who:

(a) performs any regulated function in relation to a regulated activity carried on as a business; or

(b) holds himself or herself out as performing such regulated function,

must separately be licensed under the SFO as a licensed representative accredited to his or her principal.

Through licensing, the SFC regulates the financial intermediaries of licensed corporations and individuals that are carrying out the following regulated activities:

Type 1:	Dealing in securities
Type 2:	Dealing in futures contracts
Type 3:	Leveraged foreign exchange trading
Type 4:	Advising on securities
Type 5:	Advising on futures contracts
Type 6:	Advising on corporate finance
Type 7:	Providing automated trading services
Type 8:	Securities margin financing
Type 9:	Asset management
Type 10:	Providing credit rating services

The SFO provides for a single licensing regime where a person needs only one licence to carry on different types of regulated activities.

As at the Latest Practicable Date, our subsidiaries are licensed under the SFO for the regulated activities corresponding to its name below:

Name of the subsidiary	**Licensed regulated activities**
China Industrial Securities International Brokerage Limited	Type 1 and Type 4
China Industrial Securities International Futures Limited	Type 2
China Industrial Securities International Capital Limited	Type 1 and Type 6
China Industrial Securities International Asset Management Limited	Type 4, Type 5 and Type 9

Responsible Officer

For each regulated activity conducted by a licensed corporation, the licensed corporation must appoint at least two responsible officers, at least one of whom must be an executive director, to directly supervise the business of the regulated activity. A responsible officer is an individual approved by the SFC to supervise the regulated activity or activities of the licensed corporation to which he or she is accredited.

For each regulated activity, it must have at least one responsible officer available at all times to supervise the business. The same individual may be appointed to be a responsible officer for more than one regulated activity provided that he or she is fit and proper to be so appointed and that there is no conflict in the roles assumed. In addition, every director of the licensed corporation who actively participates in or is responsible for directly supervising its regulated activity or activities must apply to the SFC to become a responsible officer.

Qualification and experience required for being a responsible officer

A person who intends to apply to be a responsible officer must demonstrate that he or she fulfils the requirements on both competence and sufficient authority. An applicant should possess appropriate ability, skills, knowledge and experience to properly manage and supervise the corporation's business of regulated activities. Accordingly, the applicant has to fulfil certain requirements on academic and industry qualifications, industry experience, management experience and regulatory knowledge as stipulated by the SFC.

If a responsible officer intends to conduct regulated activities in relation to matters falling within the ambit of a particular code issued by the SFC, for instance, the Takeovers Code or the Code on Real Estate Investment Trusts, additional competence requirements specific to that field would apply.

Licensed Representative

An individual is required to be a licensed representative if he or she is performing a regulated function for his or her principal which is a licensed corporation in relation to a regulated activity carried on as a business, or he or she holds himself out as performing such a function.

Qualification and experience required for being a licensed representative

A person who intends to apply to be a licensed representative must demonstrate his or her competence requirement under the SFO. An applicant has to establish that he or she has the requisite basic understanding of the market in which he or she is to work as well as the laws and regulatory requirements applicable to the industry. In assessing the applicant's competence to be licensed as a licensed representative, the SFC will have regard to the applicant's academic and industry qualifications and regulatory knowledge.

Fit and Proper

Persons applying for licences and registrations under the SFO, including the licensed representatives and the responsible officers, must satisfy and continue to satisfy after the grant of such licences that they are fit and proper persons to be licensed to carry out the relevant regulated activity.

Pursuant to section 129 of the SFO, in considering whether a person is fit and proper for the purposes of licensing or registration, the SFC shall, in addition to any other matter that the SFC may consider relevant, have regard to the following:

(a) the financial status or solvency of the applicant;

(b) the educational or other qualifications or experience of the applicant having regard to the nature of the functions to be performed;

(c) the ability of the applicant to carry out the regulated activity concerned competently, honestly and fairly; and

(d) the reputation, character, reliability and financial integrity of the applicant and, where the applicant is a corporation, any officer of the applicant.

The above matters must be considered in respect of the person (if an individual), the corporation and any of its officers (if a corporation other than an Authorised Institution) or the institution, its directors, chief executive, managers and executive officers (if an Authorised Institution).

In addition, the SFC may take into consideration any of the following matters stipulated in section 129(2) of the SFO in considering whether a person is fit and proper:

(a) decisions made by such relevant authorities as stated in section 129(2)(a) of the SFO or any other authority or regulatory organisation, whether in Hong Kong or elsewhere, in respect of that person;

(b) in the case of a corporation, any information in the possession of the SFC or the Hong Kong Monetary Authority (the "**HKMA**") relating to:

  (i) any other corporation within the group of companies; or

  (ii) any substantial shareholder or officer of the corporation or of any of its group companies;

(c) in the case of a corporation licensed under section 116 or section 117 of the SFO or registered under section 119 of the SFO or an application for such licence or registration:

  (i) any information in the possession of the SFC or the HKMA relating to any other person who will be acting for or on its behalf in relation to the regulated activity; and

  (ii) whether the person has established effective internal control procedures and risk management systems to ensure its compliance with all applicable regulatory requirements under any of the relevant provisions;

(d) in the case of a corporation licensed under section 116 or section 117 of the SFO or an application for the licence, any information in the possession of the SFC or the HKMA relating to any person who is or to be employed by, or associated with, the person for the purposes of the regulated activity; and

(e) the state of affairs of any other business which the person carries on or proposes to carry on.

The SFC must refuse an application to be licensed if the applicant fails to satisfy the SFC that he or she is a fit and proper person to be licensed. The onus is on the applicant to make out a case that he or she is fit and proper to be licensed for the regulated activity. In relation to an application to be registered under section 119 of the SFO by an Authorised Institution, the SFC must have regard to the advice given to it by the HKMA as to whether it has been satisfied that the applicant is a fit and proper person and the SFC may rely on such advice wholly or partly.

Key On-Going Obligations of Licensed Corporations

Licensed corporations, licensed representatives and responsible officers must remain fit and proper at all times. They are required to comply with all applicable provisions of the SFO and its subsidiary rules and regulations as well as the codes and guidelines issued by the SFC.

Outlined below are some of the key on-going obligations of a licensed corporation:

Maintenance of minimum paid-up share capital and liquid capital

Depending on the type of regulated activity, licensed corporations must maintain at all times paid-up share capital and liquid capital not less than the specified amounts according to the FRR. If a licensed corporation conducts more than one type of regulated activity, the minimum paid-up share capital and liquid capital that it must maintain shall be the highest amount required amongst those regulated activities.

If a licensed corporation offers credit facilities to its customers who would like to purchase securities on a margin basis, or provides financing for applications of shares in connection with IPOs, it must monitor its liquid capital level continuously in order to satisfy the FRR requirements. If the margin requirement of the licensed corporation increases, it would be required to maintain additional liquid capital.

Minimum paid-up share capital

The following table summarises the minimum paid-up capital that a licensed corporation is required to maintain for Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities:

Regulated activity	**Minimum paid-up share capital**
Type 1	
(a) in the case where the licensed corporation is an approved introducing agent or a trader	Not applicable
(b) in the case where the licensed corporation provides securities margin financing	HK$10,000,000
(c) in any other case	HK$5,000,000
Type 2	
(a) in the case where the licensed corporation is an approved introducing agent or a trader or a futures non-clearing dealer	Not applicable
(b) in any other case	HK$5,000,000

Regulated activity	Minimum paid-up share capital
Type 4	
(a) in the case where in relation to the Type 4 regulated activity, the licensed corporation is subject to the licensing condition that it shall not hold client assets	Not applicable
(b) in any other case	HK$5,000,000
Type 5	
(a) in the case where in relation to the Type 5 regulated activity, the licensed corporation is subject to the licensing condition that it shall not hold client assets	Not applicable
(b) in any other case	HK$5,000,000
Type 6	
(a) in the case where in relation to the Type 6 regulated activity, the licensed corporation is subject to the licensing condition that it shall not hold client assets	Not applicable
(b) in the case where the licensed corporation acts as a sponsor	HK$10,000,000
(c) in any other case	HK$5,000,000
Type 9	
(a) in the case where in relation to the Type 9 regulated activity, the licensed corporation is subject to the licensing condition that it shall not hold client assets	Not applicable
(b) in any other case	HK$5,000,000

Minimum liquid capital

Pursuant to the FRR, a licensed corporation shall maintain a minimum liquid capital at all times of an amount the higher of (a) and (b) below:

(a) The amount of:

(i) HK$500,000 in the case of a corporation licensed for Type 1 (dealing in securities) or Type 2 (dealing in futures contracts) regulated activity that is an approved introducing agent or a futures non-clearing dealer; or

(ii) HK$100,000 in the case of a corporation licensed for Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) or Type 9 (asset management) regulated activity that is subject to the licensing condition that it shall not hold client assets; or

(iii) HK$3,000,000 in the case of a corporation licensed for other Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) or Type 9 (asset management) regulated activity not within the scope of paragraphs (i) and (ii) above.

(b) 5% of the aggregate of:

(i) the licensed corporation's on-balance sheet liabilities including provisions made for liabilities already incurred or for contingent liabilities but excluding certain amounts stipulated in the definition of "adjusted liabilities" under the SFO;

(ii) the aggregate of the initial margin requirements in respect of outstanding futures contracts and outstanding options contracts held by it on behalf of its clients; and

(iii) the aggregate of the amounts of margin required to be deposited in respect of outstanding futures contracts and outstanding options contracts held by it on behalf of its clients, to the extent that such contracts are not subject to payment of initial margin requirements.

Maintenance of segregated accounts and custody and handling of client securities

A licensed corporation and any associated entity of the licensed corporation must maintain segregated account(s), and custody and handling of client securities in accordance with the requirements of the Securities and Futures (Client Securities) Rules (Chapter 571H of the Laws of Hong Kong) ("**SFCSR**"). The SFCSR sets out how intermediaries and any associated entity of the licensed corporation should manage client securities and securities collateral that are listed or traded on the Stock Exchange, and are received or held in Hong Kong by or on behalf of the intermediary or any associated entity of the licensed corporation in the course of the conduct of any regulated activity for which the intermediary is licensed or registered. Pursuant to section 10(1) of the SFCSR, an intermediary and any associated entity of the licensed corporation should take reasonable steps to ensure that client securities and securities collateral of the intermediary are not deposited, transferred, lent, pledged, repledged or otherwise dealt with except as provided in the SFCSR. Similarly, General Principle 8 of the Code of Conduct requires a licensed person to ensure that client assets are promptly and properly accounted for and are adequately safeguarded.

Maintenance of segregated account(s), and holding and payment of client money

A licensed corporation and any associated entity of the licensed corporation must maintain segregated account(s), and holding and payment of client money in accordance with the requirements under the Securities and Futures (Client Money) Rules (Chapter 571I of the Laws of Hong Kong) ("**SFCMR**"). The SFCMR sets out the requirements to ensure proper handling of client money. It prescribes the treatment of client money received or held in Hong Kong by licensed corporations or any associated entity of the licensed corporation.

Issue of contract notes, statements of account and receipts

A licensed corporation must issue contract notes, statements of accounts and receipts in accordance with the requirements under the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules (Chapter 571Q of the Laws of Hong Kong) ("**SFCNR**") unless an exemption applies. The SFCNR requires all licensed corporations entering into contracts with or on behalf of their clients to provide contract notes to their clients in the course of regulated activities for which they are licensed or registered. For those intermediaries providing financial accommodation or entering into margined transactions with or on behalf of their clients, the SFCNR also requires that a statement of account including a summary of the details of the account be provided to clients. Additionally, licensed corporations are required to provide a monthly statement summarising all activity in the account, and, subject to some exceptions, receipts for client assets received.

Record keeping requirements

A licensed corporation must keep records in accordance with the requirements under the Securities and Futures (Keeping of Records) Rules (Chapter 571O of the Laws of Hong Kong) ("**SFKRR**"). The SFKRR requires licensed corporations to keep proper records. It prescribes the records that are to be kept by licensed corporations to ensure that they maintain comprehensive records in sufficient detail relating to their businesses and client transactions for proper accounting of their business operations and clients' assets.

In addition, the premises used for keeping records or documents required under the SFO and the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (Chapter 615 of the Laws of Hong Kong) ("**AMLO**") must be approved by the SFC as required under section 130 of the SFO. Records must also be kept in accordance with the AMLO and related guidelines, as well as applicable company and general law requirements.

Submission of audited accounts

A licensed corporation must submit its audited accounts and other required documents in accordance with the requirements under the Securities and Futures (Accounts and Audit) Rules (Chapter 571P of the Laws of Hong Kong) ("**SFAAR**"). SFAAR prescribes the contents of the financial statements and the auditor's report of such accounts to be submitted by licensed corporations to the SFC. Licensed corporations and associated entities of intermediaries (except for those which are authorised financial institutions) are required to submit their financial statements, auditor's reports and other required documents within four months after the end of each financial year as required under section 156(1) of the SFO.

Submission of financial resources returns

Licensed corporations are required to submit monthly financial resources returns to the SFC except for those licensed corporations for only Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance), Type 9 (asset management) and/or Type 10 (providing credit rating services) regulated activities and their licences are subject to the condition that they shall not hold client assets. In such latter case, the licensed corporations concerned shall submit semi-annual financial resources returns to the SFC as required under section 56 of the FRR.

Payment of annual fees

Licensed corporations, licensed persons and registered institutions should pay annual fees within one month after each anniversary date of the licences or registrations under section 138(2) of the SFO. Details of the current annual fees applicable to the type of the regulated activity that our Group is engaged in are as follows:

Type of intermediary	**Type of regulated activity**	**Annual fees**
Licensed corporation	Types 1, 2, 4, 5, 6, 9	HK$4,740 per regulated activity
Licensed representative (not approved as responsible officer)	Types 1, 2, 4, 5, 6, 9	HK$1,790 per regulated activity
Licensed representative (approved as responsible officer)	Types 1, 2, 4, 5, 6, 9	HK$4,740 per regulated activity

Maintenance of insurance

A licensed corporation must maintain insurance against specific risks for specific amounts in accordance with the requirements under the Securities and Futures (Insurance) Rules (Chapter 571AI of the Laws of Hong Kong) unless exempt.

Notification to the SFC of certain changes and events

A licensed corporation must notify the SFC of certain changes and events, in accordance with the requirements under the Securities and Futures (Licensing and Registration) (Information) Rules (Chapter 571S of the Laws of Hong Kong). Such changes and events that are required to be notified include, among others, changes in the basic information of the licensed corporation, its controlling persons and responsible officers, or subsidiaries that carry out a business in a regulated activity, significant changes in business plan, changes in the address or premises where records or documents are kept or the business is carried on and changes in the capital and shareholding structure of the licensed corporation. A range of other notifications (including in relation to corporate structure and breach reporting for example) and approvals may be required depending on the circumstances.

Continuous professional training

According to the Guidelines on Continuous Professional Training published by the SFC pursuant to section 399 of the SFO, a licensed corporation is held primarily responsible for designing and implementing a continuous education system best suited to the training needs of the individuals it engages which will enhance their industry knowledge, skills and professionalism. A licensed corporation should at least annually evaluate its training programs and make commensurate adjustments to cater for the training needs of the individuals it engages. Licensed individuals must undertake a minimum of five continuous professional training hours per calendar year for each regulated activity he or she engages in, except for Type 7 (providing automated trading services) regulated activity. The SFC also requires training on particular issues, such as anti-money laundering and counter-terrorist financing issues.

Obligation for substantial shareholder

As required under section 131 of the SFO, a person (including a corporation) has to apply for the SFC's approval prior to becoming or continuing to be a substantial shareholder of a licensed corporation. A person, being aware that he or she becomes a substantial shareholder of a licensed corporation without the SFC's prior approval should, as soon as reasonably practicable and in any event within three business days after he or she becomes so aware, apply to the SFC for approval to continue to be a substantial shareholder of the licensed corporation.

Other Approvals from the SFC

Prior approval would also need to be obtained from the SFC in cases such as addition or reduction of regulated activity, modification or waiver of licensing conditions, change in record-keeping premises and change of financial year end.

Employee dealings

As mentioned in the Code of Conduct, a licensed or registered person should have a policy which has been communicated to employees (including directors other than non-executive directors) in writing on whether employees are permitted to deal or trade for their own accounts in securities, or futures contracts. In the event that employees of a licensed or registered person are permitted to deal or trade for their own accounts in securities or futures contracts:

(i) the written policy should specify the conditions on which employees may deal for their own accounts;

(ii) employees should be required to identify all related accounts (including accounts of their minor children and accounts in which the employees hold beneficial interests) and report them to senior management;

(iii) employees should generally be required to deal through the licensed or registered person or its affiliates;

(iv) if the licensed or registered person provides services in securities or futures contracts listed or traded on one of the Hong Kong exchanges or in derivatives, including over-the-counter derivatives written over such securities or future contracts, and its employees are permitted to deal through another dealer in those securities or future contracts, the licensed or registered person and employee should arrange for duplicate trade confirmations and statements of account to be provided to senior management of the licensed or registered person;

(v) any transactions for employees' accounts and related accounts should be separately recorded and clearly identified in the records of the licensed or registered person; and

(vi) transactions of employees' accounts and related accounts should be reported to and actively monitored by senior management of the licensed or registered person who should not have any beneficial or other interest in the transactions and who should maintain procedures to detect irregularities and ensure that the handling by the licensed or registered person of these transactions or orders is not prejudicial to the interests of the licensed or registered person's other customers.

A licensed or registered person should not knowingly deal in securities or futures contracts for another licensed or registered person's employee unless it has received written consent from that licensed or registered person.

Implementation of anti-money laundering and terrorist financing policies and procedures

Money laundering covers a wide range of activities and processes intended to alter the identity of the source of criminal proceeds in a manner which disguises their illegal origin. Terrorist financing is a term which includes the financing of terrorist acts, and of terrorists and terrorist organisations. It extends to any property, including any funds, whether from a legitimate or illegitimate source.

Licensed corporations are required to comply with applicable anti-money laundering laws and regulations in Hong Kong. The four main pieces of legislation that apply to licensed corporations in Hong Kong that are concerned with anti-money laundering and counter-terrorist financing ("**AML/CTF**") are the AMLO, the Drug Trafficking (Recovery of Proceeds) Ordinance (Chapter 405 of the Laws of Hong Kong) ("**DTROP**"), the Organised and Serious Crimes Ordinance (Chapter 455 of the Laws of Hong Kong) ("**OSCO**") and the United Nations (Anti-Terrorism Measures) Ordinance (Chapter 575 of the Laws of Hong Kong). ("**UNATMO**"). Please refer to paragraph (C) for an overview of DTROP, OSCO and UNATMO as well as related laws concerning sanctions and non-proliferation of weapons of mass destruction.

The AML/CTF regime for financial institutions comprises two tiers of regulation: (a) legislation, being the AMLO; and (b) supplementary guidance issued by each respective financial institutions' regulator, which includes guidelines that apply to all types of financial institutions (as defined in the AMLO) and sector-specific guidelines. The SFC has published the Guideline on Anti-Money Laundering and Counter-Terrorist Financing which applies to licensed corporations for this purpose ("**SFC Guidelines**").

Broadly speaking, the AMLO and the SFC Guidelines require licensed corporations to, among other things, adopt and enforce set of due diligence measures to their direct "customers", each customer's ultimate "beneficial owners" and any persons who purport to act on behalf of the customer. It also imposes ongoing monitoring and record keeping requirements on licensed corporations. The SFC Guidelines also provides sector-specific guidance for AML/CTF requirements under DTROP, OSCO and UNATMO such as, staff of licensed corporations who knows, suspects or has reasonable grounds to believe that a customer might have engaged in money laundering or terrorist financing activities must immediately report to the Money Laundering Report Officer of its organisation which, in turn, will report to the Joint Financial Intelligence Unit ("**JFIU**") if necessary.

Hong Kong Exchanges and Clearing Limited

Apart from the SFC, the Stock Exchange also plays a leading role in regulating companies which seek admission to the Hong Kong markets and supervising those companies once they are listed.

The HKEx is a recognised exchange controller under the SFO. It owns and operates the only stock and futures exchanges in Hong Kong, namely the Stock Exchange and The Hong Kong Futures Exchange Limited, and their related clearing houses. The duty of HKEx is to ensure orderly and fair markets and that risks are managed prudently, consistent with the public interest and in particular, the interests of the investing public.

In its role as the operator and frontline regulator of the central securities and derivatives marketplace in Hong Kong, HKEx regulates listed issuers; administers listing, trading and clearing rules; and provides services, primarily at the wholesale level, to participants and users of the exchanges and clearing houses, including issuers and intermediaries – such as investment banks or sponsors, securities and derivatives brokers, custodian banks and information vendors – who service the investors directly. These services comprise of trading, clearing and settlement, depository and nominee services, and information services.

(B) REGULATIONS AND SUPERVISION OF MONEY LENDING BUSINESS IN HONG KONG

The Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) (the "**Money Lenders Ordinance**") and the Money Lenders Regulations (Chapter 163A of the Laws of Hong Kong)(the "**Money Lenders Regulations**", and together with the Money Lenders Ordinance, the "**Relevant Statutes**") are the principal laws which govern money lending businesses in Hong Kong. The Relevant Statutes provide that, subject to certain exemptions, a person carrying on business as a money lender in Hong Kong must obtain a licence to carry on such business under the Money Lenders Ordinance (a "**Money Lenders Licence**"). The Relevant Statutes also provide for, amongst other things:

(a) the control and regulation of money lenders and their money lending transactions;

(b) the appointment of the Registrar of Money Lenders and the licensing of persons carrying on business as money lenders; and

(c) the protection and relief against excessive interest rates and extortionate stipulations in respect of loans.

Governing authorities

There are three principal authorities involved in the regulation of the money lending industry in Hong Kong and the enforcement of the relevant laws, namely:

- the Licensing Court – comprising a magistrate sitting alone and responsible for determination of applications for and granting or renewing of Money Lenders Licences;

- the Registrar of Money Lenders – responsible for processing new applications and renewal applications for Money Lenders Licences, endorsements on Money Lenders Licences and maintaining a register of money lenders for inspection by members of the public. The Registrar of Companies presently performs the above functions of the Registrar of Money Lenders; and

- the Commissioner of Police – responsible for carrying out investigations in respect of applications for Money Lenders Licences, and enforcement of the Money Lenders Ordinance.

Our licensing history and compliance with the Money Lenders Ordinance

Our money lending business is conducted by our wholly-owned subsidiary, CISI Finance. CISI Finance commenced its money lending business on 26 March 2014 after obtaining its Money Lenders Licence.

The Money Lenders Licence of CISI Finance has been successfully renewed annually and is valid until 11 February 2017.

Pursuant to section 23 of the Money Lenders Ordinance, a money lender shall not be entitled to recover any money lent by it or any interest in respect thereof or to enforce any agreement made or security taken in respect of any loan unless it can show that at the date of the loan or the making of the agreement or the taking of the security (as the case may be) it had a Money Lenders Licence. However, if the court is satisfied that given the circumstances it would be inequitable if a money lender that was not licensed at the relevant time was not entitled to recover such money or interest or to enforce such agreement or security, a court may order that the money lender is entitled to recover such money or interest or to enforce such agreement or security to such extent, and subject to such modifications or exceptions, as the court considers equitable.

Money Lenders Licence

The MLO prohibits a person from carrying on business as a money lender (i) without a Money Lenders Licence; (ii) at any premises other than that specified in the Money Lenders Licence; or (iii) otherwise than in accordance with the conditions of the Money Lenders Licence. Every Money Lenders Licence shall authorise the person or entity named therein to carry on business as a money lender for a period of 12 months from the day it is granted, or from the day immediately following the previous expiry date in the case of a renewed licence. A Money Lenders Licence is not generally transferable and a licensee may apply for the renewal of its licence within a period of three months prior to the expiration of its Money Lenders Licence.

Application for or renewal of Money Lenders Licence

Information to be submitted to the Registrar of Money Lenders

An applicant is required to submit an application form and a statement in the prescribed form together with the prescribed application fee to the Registrar of Money Lenders for an application for, or the renewal of, a Money Lenders Licence. For a corporate applicant, the application must also include the appropriate evidence of authorisation to prove that the application for, or renewal of, the Money Lenders Licence is made by a person authorised on behalf of such applicant.

Corporate and banking information and details of the directors, past directors, management, shareholders and beneficial owners of the corporate applicant must be provided to the Registrar of Money Lenders for its consideration when applying for or renewing the Money Lenders Licence. Such information and details to be provided to the Registrar of Money Lenders include the following:

- Corporate information – (i) the name and (in the case of a new application for a licence) any former names (in English and Chinese) of the applicant; (ii) its date and place of incorporation (in the case of a new application for a licence); (iii) the date of the certificate of registration issued in respect of the applicant under Part 16 of the Companies Ordinance if the applicant is a non-Hong Kong company (in the case of a new application for a licence); (iv) the address of its registered office; and (v) the address and telephone number of each of the places at which the applicant's money lending business is carried on.

- Banking information in relation to each bank at which an account is kept or proposed to be kept in connection with a money lending business – (i) the name of each of the banks; (ii) the address of each of the banks; (iii) the number of accounts maintained at each of the banks; and (iv) the date on which each account was opened.

- Personal particulars of the current (and, if applicable, previous) directors of the applicant – (i) English and (if applicable) Chinese names and commercial codes; (ii) residential addresses; (iii) periods of service as directors of the applicant (in the case that the previous directors who have held office as a director during the 12 months immediately preceding the date of application); (iv) Hong Kong identity card numbers; and (v) aliases.

- Particulars of six principal shareholders (or all the shareholders if less than six) – (i) English and (if applicable) Chinese names and codes; (ii) residential addresses; (iii) details of their shareholding in the applicant; and (iv) in the case of a new application for a licence, particulars of the beneficial owners (if the principal shareholders of the applicant are not the beneficial owners of the shares of the applicant).

Where an applicant intends to conduct business as a money lender at any other premises in addition to the premises specified in his licence, the applicant may apply to the Licensing Court to have such additional premises endorsed on his licence.

Investigation and lodgement of application

An application for or renewal of a Money Lenders Licence is copied to the Commissioner of Police. The Commissioner of Police may conduct an investigation in respect of the application for the purpose of determining whether, in the opinion of the Commissioner of Police, there are grounds for objecting to the application, and may in writing require the applicant to produce for inspection of such books, records or documents or to furnish such information relating to the application or any business carried on or intended to be carried on by the applicant as the Commissioner of Police may specify.

Other than registration of the application by the Registrar of Money Lenders, no other steps shall be taken prior to the earlier of: (i) the expiry of 60 days after the application date, or (ii) the date on which the Commissioner of Police notifies the Registrar of Money Lenders that any investigation on the application has been completed (such earlier date being the "**Relevant Date**").

In the event the Registrar of Money Lenders or the Commissioner of Police wishes to object to an application for a Money Lenders Licence on any grounds, it shall serve on the applicant a notice of its intention to object (stating its ground(s) of objection thereon) not later than seven days after the Relevant Date.

The Registrar of Money Lenders shall then lodge the application for a Money Lenders Licence with the Licensing Court (together with any notice of objection) on the expiry of a period of seven days after the Relevant Date.

Determination of application for or renewal of licence by Licensing Court

The Licensing Court comprises a Magistrate sitting alone and is empowered to hear and determine whether to grant or renew the Money Lenders Licence.

Qualification criteria for the grant or renewal of Money Lenders Licences

The Licensing Court shall not grant a Money Lenders Licence to an applicant who is convicted of an offence under the Money Lenders Ordinance and in respect of whom there is in force an order made by a court disqualifying such person from holding a Money Lenders Licence. In addition, the Licensing Court shall not grant a licence for or renew a Money Lenders Licence on application if one or more of the following circumstances arise:

(i) the application is subject to an objection by the Registrar of Money Lenders;

(ii) the application is subject to an objection by the Commissioner of Police; or

(iii) the application is subject to an objection by any other person who has served notice of his intention to object, or any other person who is granted leave by the Licensing Court to make such an objection.

However the Licensing Court may grant a licence notwithstanding such circumstances if it is satisfied that:

(i) the applicant is a fit and proper person to carry on business as a money lender;

(ii) if the applicant is a company, any person who controls such company or in accordance with whose directions or instructions the directors thereof are accustomed to act, is a fit and proper person to be associated with the business of money lending;

(iii) any person responsible or proposed to be responsible for the management of the applicant's business or any part thereof, or, if the applicant is a company, any director, secretary or other officer of the company, is a fit and proper person to be associated with the business of money-lending;

(iv) the applicant's name under which the Money Lenders Licence is applied for is not misleading or otherwise undesirable;

(v) the premises to be used in the applicant's money lending business are suitable for carrying on the business of money lending;

(vi) the applicant has complied with the provisions of the Money Lenders Ordinance and any regulations relating to the application; and

(vii) in all the circumstances the grant of such licence is not contrary to the public interest.

The Licensing Court may impose conditions on licences granted or renewed as it deems fit.

Revocation or suspension of Money Lenders Licence by the Licensing Court

The Licensing Court may determine its own procedure subject to the Money Lenders Ordinance. On the application of the Registrar of Money Lenders or the Commissioner of Police, the Licensing Court may make an order to revoke or suspend any Money Lenders Licence granted if it is of the opinion that:

(i) the licensee has ceased to become a fit and proper person to carry on business as a money lender; or

(ii) the premises specified in the Money Lenders Licence or any of such premises have, or the situation thereof has, ceased to be suitable for the carrying on of the business of money lending; or

(iii) the licensee has been in serious breach of any condition of the Money Lenders Licence or has ceased to satisfy any other condition relating to the licensee's business as a money lender in respect of which the Licensing Court is required to be satisfied; or

(iv) the business of the licensee has been carried on at any time or on any occasion since the date on which the licence was granted by recourse to the use of any methods, or in any manner, contrary to the public interest.

Duty to notify the Registrar of Money Lenders of changes of certain particulars

The following changes to any particulars entered into the register in respect of any licensee (which is a company), must be notified by the licensee to the Registrar of Money Lenders in writing within 21 days after such changes taking place:

(i) the officers of such licensee;

(ii) the control of such licensee by any person;

(iii) the number of shares, or shares of a prescribed class, of such licensee held by any person whereby the number of those shares exceeds the prescribed proportion of the number of issued shares or of the number of shares of that class (as the case may be); and

(iv) the persons responsible for the management of the licensee's business as a money lender at any premises where the business is carried on.

Regulations of money lending transactions

(I) Money Lenders Ordinance

The Money Lenders Ordinance imposes a number of regulations on the transactions and arrangements which may be conducted by a licensed money lender, such as CISI Finance, including but not limited to, the following:

(a) Requirement of a written agreement

Section 18 of the Money Lenders Ordinance provides that no agreement for the repayment of money lent by a money lender or for the payment of interest on money so lent, and no security given to any money lender in respect of any such agreement or loan shall be enforceable unless a note or written memorandum of the agreement (containing the information specified in the Money Lenders Ordinance) is signed personally by the borrower within seven days after making of the agreement, and a copy of such note or memorandum is given to the borrower at the time of signing.

The note or memorandum shall contain all the terms of the agreement and in particular shall set out:

(i) the name and address of the money lender;

(ii) the name and address of the borrower;

(iii) the name and address of the surety, if any;

(iv) the amount of the principal of the loan in words and figures;

(v) the date of the making of the agreement;

(vi) the date of the making of the loan;

(vii) the terms of repayment of the loan;

(viii) the form of security for the loan, if any;

(ix) the rate of interest charged on the loan; and

(x) a declaration as to the place of negotiation and completion of the agreement for the loan.

Section 18(3) of the Money Lenders Ordinance states that, if the court before which the enforceability of any agreement or security comes into question is satisfied that in all the circumstances it would be inequitable that any such agreement or security which does not comply with section 18 should be held not to be enforceable, the court may order that such agreement is enforceable to such extent, and subject to such modifications or exceptions, as the court considers equitable.

The time limit for making any complaint under section 18 of the MLO to a Magistrate is six months from the time when the matter of such complaint arose.

(b) Duty to give information to borrower

Section 19 of the Money Lenders Ordinance stipulates that a licensed money lender (which would include CISI Finance) shall, on demand in writing being made by the borrower provide a statement signed by the licensed money lender or their agent, to the borrower or any other person specified by the borrower in the borrower's demand, showing certain information including but not limited to:

(i) the date on which the loan was made, the amount of principal and the interest rate charged;

(ii) the amount of any payments already received by the money lender and the date(s) of such payments; and

(iii) the amount not yet due which remains outstanding, and the date on which it will become due.

A licensed money lender who fails to comply with section 19 of the Money Lenders Ordinance without reasonable excuse within one month after the demand has been made by the borrower shall not, as long as the default continues, be entitled to sue the borrower or recover any sum due, whether for principal or interest, under the agreement, and that interest shall not be chargeable during the period of default.

(c) Borrowers entitled to early repayment

Section 21 of the Money Lenders Ordinance provides that any borrower under any agreement for the loan of money by a licensed money lender is entitled to, by giving written notice to the licensed money lender at any time, make early repayment of all outstanding principal under the agreement together with the relevant interest calculated up to the date of such early payment to discharge the borrower's indebtedness under the agreement.

(d) Terms rendering an agreement illegal

Section 22 of the Money Lenders Ordinance renders any agreement made for the loan of money by a money lender illegal if it provides directly or indirectly for:

(i) the payment of compound interest;

(ii) prohibition of repayment of the loan by instalments; or

(iii) the rate or amount of interest being increased by reason of any default in the payment of sums due under the agreement.

However, if default is made in the payment upon the due date of any sum payable under the agreement, whether in respect of principal or interest, the money lender shall be entitled to charge simple interest, on that sum from the date of the default until the sum is paid at an effective rate not exceeding the effective rate payable in respect of the principal apart from any default, and any interest so charged shall not be reckoned for the purposes of the Money Lenders Ordinance as part of the interest charged in respect of the loan. According to section 2 of the Money Lenders Ordinance, the effective interest rate, in relation to interest, means the true annual percentage rate of interest calculated in accordance with Schedule 2 of the Money Lenders Ordinance.

However, when deciding on the legality of any agreement, if the court is satisfied that in all the circumstances of a particular case, it would be inequitable for any agreement which does not comply with section 22 of the Money Lenders Ordinance to be held unenforceable, the court may order that such agreement is enforceable to such extent, and subject to such modifications or exceptions, as the court considers equitable.

(e) Maximum interest rate chargeable by a money lender

Section 24 of the Money Lenders Ordinance stipulates that it is a criminal offence for any person (whether a licensed money lender or not) who is subject to the MLO to lend or offer to lend money at an effective rate of interest which exceeds 60% per annum. No agreement for the repayment of, or for the payment of interest on, any such loan and no security given in respect of any such agreement or loan shall be enforceable in any case.

Any person who contravenes such section commits an offence and may be liable:

(i) on summary conviction to a fine of HK$500,000 and to imprisonment for two years; or

(ii) on conviction on indictment to a fine of HK$5 million and to imprisonment for ten years.

(f) Authority of the court to re-open loan transactions as it may think fit

Section 25 of the Money Lenders Ordinance provides that if in any proceedings for the recovery of any money lent or the enforcement of any agreement or security in respect of any loan, the court is satisfied the transaction is extortionate, the court may re-open the transaction and make such orders and give such directions as it may think fit. A transaction is extortionate if (i) it requires the borrower or his or her relative to make payments (whether unconditionally or on certain contingencies) which are grossly exorbitant; or (ii) it otherwise grossly contravenes ordinary principles of fair-dealing. Any agreement for the repayment of a loan or for the payment of interest on a loan in respect of which the effective rate of interest exceeds 48% per annum shall be presumed to be a transaction which is extortionate.

If the court, having regard to all circumstances relating to the agreement, is satisfied that such rate is not unreasonable or unfair, the court may (except where such rate exceeds 60% per annum) declare that any such agreement is not extortionate. Factors and evidence which the court may take into account when deciding whether a transaction is extortionate or not include, amongst others, (i) the interest rate prevailing at the time; (ii) the borrower's age, experience, business capacity and state of health; (iii) the degree to which, at the time of entering into the transaction, the borrower was under financial pressure and the nature of that pressure; and (iv) the degree of risk accepted by the money lender in that particular transaction, having regard to the nature and value of any security provided by the borrower.

(g) Requirements with respect to money-lending advertisements

Section 26 of the MLO provides for certain requirements with which a money lender such as CISI Finance must comply with respect to any advertisement, circular, business letter or other similar document that it issues or publishes for the purposes of its business as a money lender.

(h) Incidental charge for granting of loans not allowed

Section 27 of the Money Lenders Ordinance renders any agreement entered into between a licensed money lender and a borrower (or intending borrower) to provide for the payment by the borrower to the licensed money lender of any sum for or on account of costs, charges or expenses (other than stamp duties or similar duties) incidental to or relating to the negotiations for or the granting of the loan or proposed loan or the guaranteeing or securing of the repayment thereof illegal.

It is also illegal for any licensed money lender or their partner, employer, employee, principal or agent or any person acting for or in collusion with any licensed money lender to charge, recover or receive any sum as for or on account of any such costs, charges or expenses (other than stamp duties or similar charges) or to demand or receive any remuneration or reward whatsoever from a borrower or intending borrower for or in connection with or preliminary to procuring, negotiating or obtaining any loan made or guaranteeing or securing the repayment of a loan.

(i) Exempt loans from the provisions of the Money Lenders Ordinance

As detailed in Part 2, Schedule I of the Money Lenders Ordinance, certain types of loans are exempted from the provisions of the Money Lenders Ordinance (except sections 24 and 25 as described above, which apply to any person (whether a licensed money lender or not)) unless exempt. These types of loans include, amongst others, (i) loans made bona fide by an employer to its employee; (ii) loans made to a company secured by certain registrable mortgages, charges, liens or other

encumbrances; (iii) loans made under bona fide credit card schemes; (iv) loans made bona fide for the purchase of immovable property on the security of a mortgage; (v) loans made to a company the shares or debentures of which are listed on a recognised stock market; and (vi) loans made to a company that has a paid-up share capital of not less than HK$1.0 million or an equivalent amount.

(j) Conviction of offence under the Money Lenders Ordinance

Section 29 of the Money Lenders Ordinance sets out certain provisions which if breached would be offences. These include (but are not limited to) carrying on a business as a money lender without a licence, providing false information in respect of an application for a licence, failure to make a note or memorandum in writing of an agreement in compliance with section 18, failure to provide a borrower with a statement in compliance with section 19, publishing an advertisement in contravention of section 26 and charging a borrower for costs, charges or expenses in contravention of section 27 of the MLO.

Pursuant to sections 29 and 32 of the MLO, any person who commits an offence specified in section 29 may be liable to a fine of HK$100,000 and to imprisonment for two years.

Pursuant to section 32 of the MLO, where any person is convicted of an offence under the MLO, the Magistrate may order that such person shall be disqualified from holding a licence for such period not exceeding five years from the date of such conviction as may be specified in the order.

(k) Compliance

CISI Finance has employed the services of an external law firm to review its standard money lending documentation to ensure that such documentation is in compliance with the requirements of the MLO. Thus far, it has not been the subject of any enforcement procedures under the MLO.

(II) Money Lenders Regulations

The Money Lenders Regulations govern administrative matters in relation to the operation of money lender businesses, including applications and renewals of Money Lender Licences. CISI Finance has to follow such requirements when making relevant applications and conducting its money lending business.

(III) Code of Money Lending Practice

The Code of Money Lending Practice (the "**Code**") is issued by The Hong Kong S.A.R. Licensed Money Lenders Association Limited (the "**LMLA**") and is a non-statutory code issued on a voluntary basis observed by members of the LMLA. The Code sets out certain best practices for money lending services, and the major clauses of the Code include:

(a) the terms and conditions should, where applicable, highlight the relevant interest rates or the basis on which this will be determined, and the customers' liabilities and obligations in the use of a service. In drawing up terms and conditions for the services, members should have due regard to applicable laws in Hong Kong;

(b) licensed money lenders should at all times comply with the PDPO (as defined below) in the collection, use and holding of customer information. They should also comply with any relevant codes of practice issued or approved by the Privacy Commissioner for Personal Data giving practical guidance on compliance with the PDPO;

(c) approval of loans should be subject to members' credit assessment, which should take into account the applicant's ability to repay. Licensed money lenders should endeavour to ensure that a prospective borrower understands the principal terms and conditions of any borrowing arrangement, such as the interest rates and terms of repayment; and

(d) licensed money lenders should have proper systems and procedures in place for the selection of debt collection service providers and the monitoring of their performance. They should also establish procedures to handle complaints received from customers and should bring apparently illegal behavior by debt collection service providers to the attention of the police.

CISI Finance is not a member of the LMLA. However, we have taken some measures to follow certain best practices set out in the Code. These include (i) establishing "know your client" procedures to assess clients' backgrounds; and (ii) requiring all transfers of funds and other transactions to be made through bank transfers or cheque.

Our Directors confirm that to the best of their knowledge, our Group has followed the best practice set out in the Code.

(C) OTHER KEY LAWS AND REGULATIONS THAT APPLY TO OUR GROUP'S BUSINESS AND OPERATIONS

There are other laws and regulations in force in Hong Kong which are also relevant to our Group's business and operations. These laws and regulations mainly provide for AML/CTF, sanctions compliance and protection of data privacy.

DTROP, OSCO and UNATMO

These Hong Kong laws primarily concern dealing in any property which may represent proceeds obtained from drug trafficking or any indictable offence, dealing in Terrorist Property (as defined below) and terrorist financing. They also require disclosure by any person of their knowledge or suspicion of any such property.

(a) DTROP

The DTROP provides for the tracing, freezing and confiscation of the proceeds of drug trafficking and creates a criminal offence in relation to dealing with such proceeds.

Where a person knows or suspects that any property is the proceeds of drug trafficking, the person shall disclose to a police officer, a member of the Customs and Excise Service, a member of the Immigration Service, or an officer of the Independent Commission Against Corruption (an "**Authorised Officer**") the information or other matter on which the knowledge or suspicion is based, as soon as is practicable after that information or other matter comes to the person's attention. It is an offence to fail to disclose to an Authorised Officer such information. It is also an offence for any person knowing or suspecting such a disclosure has been made to disclose any matter to another person which is likely to prejudice any investigation. This is commonly referred to as "tipping off".

(b) OSCO

The OSCO extends the dealing offence under DTROP to cover the proceeds of indictable offences. It also creates a similar offence in relation to failing to disclose knowledge or suspicion of the proceeds of an indictable offence and tipping off.

(c) UNATMO

The UNATMO implements the mandatory elements of the United Nations Security Council resolutions aimed at combating international terrorism on various fronts. The UNATMO relates to "Terrorist Property", which refers to property of a terrorist or terrorist associate, or any other property that is intended to be used to finance or otherwise assist the commission of a terrorist act; or was used to finance or otherwise assist the commission of a terrorist act.

The UNATMO prohibits a person from providing any property knowing that the property will be used, in whole or in part, to commit one or more terrorist acts. It also prohibits a person from making any property or financial services available to or for the benefit of a person knowing that, or being reckless as to whether, the person is a terrorist or terrorist associate, except under the authority of a licence granted by the Secretary for Security of Hong Kong.

The UNATMO regulates the disclosure of knowledge or suspicion that property is Terrorist Property, similar to the requirements of DTROP and OSCO. It also creates a similar tipping off offence.

Our Directors confirm that we have been in compliance with these pieces of legislation.

UNITED NATIONS SANCTIONS ORDINANCE

The United Nations Sanctions Ordinance (Chapter 537 of the Laws of Hong Kong) (the "**UNSO**") implements in Hong Kong the United Nations Security Council resolutions to impose targeted sanctions against certain jurisdictions as instructed by the Ministry of Foreign Affairs of the PRC. As at the Latest Practicable Date, there were more than 70 regulations made under this ordinance relating to around 19 jurisdictions, including but not limited to Liberia, Libya, Afghanistan, Eritrea and the Democratic Republic of the Congo. There are prohibitions against trade-related activities, which include making available to, or for the benefit of, certain persons or entities, any funds or other financial assets or economic resources, or dealing with funds or other financial assets or economic resources of certain persons or entities from the above jurisdictions.

Section 3(3) of the UNSO provides that a contravention or breach of different sanctions or trade restrictions in the regulations shall be punishable on summary conviction by a fine not exceeding HK$500,000 and imprisonment for a term not exceeding two years; on conviction on indictment by an unlimited fine and imprisonment for a term not exceeding seven years.

Our Directors confirm that we have been in compliance with the UNSO and the regulations made under it.

WEAPONS OF MASS DESTRUCTION (CONTROL OF PROVISION OF SERVICES) ORDINANCE

The Weapons of Mass Destruction (Control of Provision of Services) Ordinance (Chapter 526 of the Laws of Hong Kong) (the "**WMDO**") provides it is a criminal offence for a person to provide a service to another person where they reasonably believe or suspect, on reasonable grounds, that the service will or may assist the development, production, acquisition or stockpiling of weapons of mass destruction. The provision of services for the purposes of the WMDO covers a wide range of activities.

The WMDO also provides for the criminal liability of officials of a body corporate for offences committed by the body corporate with the consent and connivance of such officials.

Our Directors confirm that we have been in compliance with the WMDO.

PERSONAL DATA (PRIVACY) ORDINANCE

The nature of our business inevitably requires that we collect, keep, and make use of our customers' and potential customers' personal data on a frequent and regular basis. As a result of which, we have to follow the data protection principles of the Personal Data Privacy Ordinance (Chapter 486 of the Laws of Hong Kong) (the "**PDPO**"). We inform our customers of their rights under the PDPO and the purpose for which their data may be used.

Although we owe a duty of confidentiality to our customers under the relevant laws and regulations on protection of data privacy as well as under the general law of confidentiality, we are required, and are entitled to report any suspicious cases to the relevant authorities. Legislation in Hong Kong, such as the DTROP, OSCO and UNATMO require that disclosure of certain suspicious transactions be made under the legislation. Such disclosures are not to be treated as a breach of any restriction upon the disclosure of information imposed by contract or by any enactment, rule of conduct or other legislation provision, and any person making such disclosure shall not be liable in damages for any loss which may arise out of such disclosure.

Further, section 58 of the PDPO provides that if personal data is used for any of the purposes referred to in section 58(1) of the PDPO (which includes but is not limited to prevention or detection of crime, prosecution or detention of offenders, and prevention, preclusion or remedying of unlawful or seriously improper conduct or dishonesty or malpractice by persons, etc.) ("**Exempted Matters**") and the application of the personal data protection principle in relation to such use would likely prejudice any of the Exempted Matters, then: (i) such personal data is exempted from the provisions of such data protection principle; and (ii) if there are proceedings against any person for a contravention of any of those provisions of the PDPO, it shall be a defence if that person can show that they have reasonable grounds for believing that failure to so use the data would have been likely to prejudice any of the Exempted Matters.

Part 6A of the PDPO imposes regulations on the use and provision of personal data in direct marketing. Under Part 6A, if customers' personal data is intended to be used in direct marketing, customers must be notified and their consent must be obtained before using or transferring any of their personal data to another person. Furthermore, customers must be notified of their opt-out right when using their personal data in direct marketing for the first time. Customers are entitled to require us to cease using their personal data at any time. Customers shall not be charged for compliance with Part 6A of the PDPO.

U.S. Foreign Account Tax Compliance Act ("FATCA")

Background

FATCA was enacted by the United States in March 2010 to combat tax evasion by U.S. taxpayers using offshore financial accounts. Generally, under FATCA, foreign financial institutions ("**FFIs**") that hold or manage customers' money, including banks, private equity funds, hedge funds, institutional investment funds, retirement funds and trusts, insurance companies, securities brokers and dealers, irrespective of where they are headquartered or whether or not the shareholding structure is American, are required to register and conclude separate individual agreements with the U.S. Internal Revenue Service ("**IRS**") to identify and disclose details regarding their U.S. account holders. Under these agreements, these FFIs shall seek the consent of their account holders who are U.S. taxpayers for reporting their account information to the U.S. IRS annually. These FFIs will be required to withhold tax for relevant U.S. account-holders who do not give consent to such disclosures, or to close such accounts.

An FFI which does not sign the agreement with the IRS or is not otherwise exempt will face a punitive 30.0% withholding tax on all "withholdable payments" derived from U.S. sources, initially including dividends, interest and certain derivative payments. Commencing from 2019, gross proceeds such as sales proceeds and returns of principal derived from stocks and debt obligations generating U.S. source dividends or interest will also be treated as "withholdable payments".

On 13 November 2014, Hong Kong and the U.S. signed a Model II intergovernmental agreement ("**IGA**") to facilitate compliance with FATCA by FFIs in Hong Kong to seek consent for disclosure from U.S. clients, and to report relevant tax information of such clients to the IRS. Pursuant to the IGA, financial institutions in Hong Kong are required to: (a) use established customer due diligence (i.e. "**know-your-customer**") procedures under the prevailing anti-money laundering legislation to identify U.S. accounts and clients; (b) obtain the consent of relevant U.S. clients (including individuals and entities) for reporting their relevant account balances, gross amounts of relevant interest incomes, dividend incomes and withdrawals, and identification details to the U.S. IRS annually, with the first reporting deadline being 31 March 2015 (in respect of the year-end information for 2014); and (c) report "aggregate information" of account balances, payment amounts and number of non-consenting U.S. accounts to the IRS. The IRS may then make requests to the Hong Kong Inland Revenue Department for exchange of information based on such aggregate information.

Our Group's compliance with FATCA

Given that our wholly-owned subsidiaries hold or manage customers' money in the provision of its securities brokerage services, it falls within the definition of FFI under FATCA. On 30 June 2014, Industrial Securities (Hong Kong) Financial Holdings Limited, our controlling shareholder and the then holding company of our subsidiaries, registered and entered into an agreement with the IRS, and in the same month, it notified its clients regarding its obligations under FATCA. With effect from 1 July 2014, as part of its "know-your-client" procedures, it implemented an additional step in its account opening procedures which consists of a self-certification from the new client declaring that it is not a U.S. citizen or resident for tax purposes, if applicable.

On 5 June 2015, our Group conducted reviews of our existing client accounts in order to identify any accounts held by U.S. taxpayers. One of our licensed Corporation, CISI Asset Management has maintained 2 US client accounts that are held by a U.S. taxpayer.

Given that (i) we have registered and concluded a separate agreement with the IRS; (ii) we have implemented the necessary customer due diligence procedures to identify U.S. accounts and clients in compliance with FATCA; and (iii) only two of our existing client accounts are held by a U.S. taxpayer, our Directors believe that the impact of implementation of FATCA in Hong Kong pursuant to the IGA on our Group's business operations, our shareholders and clients is not significant.