OVERVIEW

We are a full-service securities group based in Hong Kong with integrated service offering comprising brokerage, loans and financing, investment banking and asset management services. Our Controlling Shareholder, Industrial Securities, is one of the leading securities firms in the PRC and listed on the Shanghai Stock Exchange (stock code: 601377). Industrial Securities was established in 1994 and according to the SAC, for the year 2015, Industrial Securities was ranked (i) 16th out of 125 PRC securities companies in terms of total assets which amounted to approximately RMB98.5 billion; and (ii) 16th out of 125 PRC securities companies in terms of revenue which amounted to approximately RMB8.6 billion (representing 1.5% of the total revenue of these PRC securities companies as quoted by the SAC). With over 20 years of operating history of Industrial Securities, "兴证" is a widely recognised brand in the PRC. Our relationship with Industrial Securities have allowed us to effectively establish local market presence, reinforce client's confidence in our services and grow our client base, as well as provided us with high-quality management resources to establish a stronghold in Hong Kong within a short period after commencement of our business in 2012. Benefiting from our history as a subsidiary of Industrial Securities and capitalising on the brand reputation associated with "兴证" and our core competitive strengths, we have been actively seeking growth opportunities through expanding our client sources, innovating products and services to align with the diversifying needs of our clients and optimising our business structure in response to changing economic cycle and development trends of the global financial markets. With the accelerating pace of the internationalisation of Renminbi and increasing interactions between mainland China and foreign investors, we will continue to leverage Hong Kong, being an international financial hub and gateway to Chinese capital, to develop new clients and deliver new products and professional services that could create value for new and potential clients.

Through our brokerage, lending, asset management and investment banking arms, our principal business lines are:

- ***Brokerage:*** we engage in the trading of stocks, futures, options and other securities in Hong Kong, United States, the PRC (comprising B shares and eligible securities traded through the Shanghai-Hong Kong Stock Connect) and other overseas markets on behalf of our clients. We also offer insurance, pensions and other wealth management products developed by third parties to our clients.

- ***Loans and financing:*** we offer margin financing and money lending services to provide funding flexibility to our clients.

- ***Investment banking:*** we provide investment banking services, including equity and debt securities underwriting, listing sponsorship and financial advisory services.

- ***Asset management:*** we offer collective asset management products, discretionary account management and investment advisory services which cater to different investment styles and risk appetites of our clients.

- ***Proprietary trading:*** we engage in proprietary trading in financial products for our own accounts.

Our core competitive strength lies partly in our strong service capability and capital base that fulfill the varying investment and financing needs of our clients. Our operating subsidiaries are licensed to conduct different regulated activities under the SFO. We conduct brokerage and margin financing businesses through CISI Brokerage, which is licensed to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO, and CISI Futures, which is licensed to carry on Type 2 (dealing in futures contracts) regulated activity. Our investment banking business is conducted through CISI Capital, which is licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities and qualified to act as sponsor under the SFO, while our asset management business is conducted through CISI Asset Management which is licensed to carry on Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 9 (asset management) regulated activities under the SFO. We provide our money lending service through CISI Finance, a licensed money lender under the Money Lenders Ordinance. We also commenced our wealth management business in December 2015 to offer wealth management products developed by third parties to our clients through CISI Wealth Management, which is a member of the Professional Insurance Brokers Association. Our diversified business portfolio allows us to create synergies between our business lines, generate cross-selling opportunities and provide integrated financial services to clients. Furthermore, we have a strong capital base for operation and development of our various business lines, as evidenced by the increase of our bank balance (excluding trust accounts) from HK$238 million as at 31 December 2015 to HK$759.5 million as at 31 July 2016 after completion of the capital injections from our Controlling Shareholders and our [**REDACTED**].

Our fast-growing business is underpinned by our professional and seasoned workforce. Our executive and non-executive Directors have more than 18 years of experience on average in the financial services industry and our senior management members have served renowned financial institutions in the PRC, Hong Kong and/or overseas. Our strong and experienced management team allows us to keep abreast of the latest development of the capital market and financial industry, formulates sound business strategies and responds timely to changing market environment to capture growth opportunity, thereby allowing us to expand rapidly since the commencement of our business in 2012. As at 31 March 2016, our professional workforce consisted of more than 120 employees, many of whom are experienced in financial services, and a total of 57 account executives across our business lines who possess rich trading experience in Hong Kong, PRC or overseas markets. We place great emphasis on staff training and professional development to enhance our employees' technical expertise, know-how and regulatory compliance, aiming at delivering services of premium quality that meet our clients' requirement, cultivating customer's loyalty and generating word-of-mouth reputation in the industry.

We experienced rapid growth during the Track Record Period. Our total revenue increased from HK$120.0 million to HK$364.3 million for the years ended 31 December 2014 and 2015, representing a year-to-year increase of 203.6%. Our commission and fee income from brokerage business and interest income from our loans and financing business constituted our main source of revenue during the Track Record Period. Commission and fee income from our brokerage business amounted to HK$45.3 million, HK$175.2 million and HK$23.9 million for the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, respectively, representing 37.7%, 48.1% and 30.0% of our total revenue during the same period, respectively. Interest income from our loans and financing business amounted to HK$10.0 million, HK$127.0 million and HK$52.9 million for the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, respectively, representing 8.3%, 34.9% and 66.3% of our total revenue during the same period, respectively.

COMPETITIVE STRENGTHS

We believe that the following strengths distinguish us from our competitors:

We are a fast growing securities group with a strong capital base in Hong Kong

Leveraging on sound business planning, we have rapidly stood out as a reputable China-affiliated securities group based in Hong Kong since the commencement of our business in 2012. Our business lines have evolved from conventional brokerage and margin financing in 2012 to full-services including investment banking and wealth management and achieved rapid growth during the Track Record Period. The tremendous growth of our business for the years ended 31 December 2014 and 2015 is evidenced as follows:

- our trading turnover of stock increased by over five-fold from HK$17,927.0 million to HK$95,634.8 million and the number of contracts executed under our futures and options brokerage business increased by three-fold from 0.49 million to 1.6 million. Our commission and fee income from brokerage business grew over three-fold from HK$45.3 million in 2014 to HK$175.2 million in 2015;

- total market value of all securities held by our brokerage clients increased from HK$6 billion as at 31 December 2014 to HK$37.3 billion as at 31 December 2015, and client accounts in our brokerage business increased from 8,099 as at 31 December 2014 to 15,424 as at 31 December 2015, of which 2,108 and 4,358 were active accounts, respectively;

- total balance of margin loans increased by almost five-fold from HK$411.7 million as at 31 December 2014 to HK$2,421.3 million as at 31 December 2015 and total loan balance of our money lending business increased by over 70% from HK$157.5 million as at 31 December 2014 to HK$282.3 million as at 31 December 2015. Interest income from our loans and financing business increased over ten-fold from HK$10.0 million in 2014 to HK$127.0 million in 2015;

- our AUM increased from HK$817.1 million to HK$1,664.0 million and management fees received from our asset management business increased by over five times from approximately HK$0.8 million in 2014 to approximately HK$5.5 million in 2015; and

- the value of securities we had underwritten or placed in all equity fund raising transactions in which we acted as an underwriter or a placing agent increased from HK$512.2 million in 2014 to HK$2,471.9 million in 2015.

During the Track Record Period, we were engaged for five proposed listing applications in which we acted in the capacity as the sponsor for the potential listing applicant. After the Track Record Period and up to the Latest Practicable Date, we were engaged for one additional proposed listing application as the sponsor and had submitted two listing applications to the Stock Exchange. We had also completed 11 transactions as a financial adviser, independent financial adviser or compliance adviser during the Track Record Period.

We believe that our rapid expansion is grounded in our full-service capability to fulfil the varying needs of our clients, our technical expertise and seasoned workforce that deliver professional and customised services of high quality. Our strong capital base, as evidenced by our bank balance (excluding trust accounts) of HK$759.5 million as at 31 July 2016 after completion of the capital injections from our Controlling Shareholders and our [**REDACTED**], will also allow us to extend larger loans and more personalised financing services to customers of different capital and financing requirements. We will continue to leverage our advantages on service capability and capital base to innovate our product and service portfolio and attract high-quality clients, aiming at increasing our market share and achieving long-term growth in our businesses.

We benefit from our history as a subsidiary of Industrial Securities and the brand reputation associated with "兴证"

According to Frost & Sullivan, the total market share (in terms of transaction value) of PRC-funded securities companies and large-scale Hong Kong corporations in Hong Kong securities market has been increasing in recent years, and such increase was mainly due to the continuous expansion into Hong Kong stock market of companies with PRC background. The increasing liberalisation of PRC capital in the international market and surging investment demand of PRC investors in Hong Kong and other overseas markets are considered to be another important growth driver.

Against the backdrop, our Controlling Shareholder, Industrial Securities, is one of the leading securities firm in the PRC and was ranked 16th out of all PRC securities companies in terms of total assets in 2015, according to the SAC. Industrial Securities was established in 1994 and was one of the first batch of regulated securities company in China, with an outstanding track record of over 20 years in the financial service industry and sales coverage across more than 20 provinces, autonomous regions and municipalities in the PRC. The core businesses of Industrial Securities Group (excluding our Group) in the PRC include securities and futures brokerage, securities proprietary trading, investment banking and asset management. With over 20 years of operating history of Industrial Securities, "兴证" is a widely recognised brand in the PRC. As the indirect subsidiary of Industrial Securities, we are benefited from the strong brand recognition and reputation associated with "兴证" developed by Industrial Securities in the PRC, which have effectively allowed us to establish local market presence in Hong Kong, being a gateway to Chinese capital, reinforce our client's confidence in our services, and grow our client base within a short period after commencement of our business in 2012. The experience of several Directors and senior management developed with Industrial Securities Group have also provided us with high-quality management resources, technical expertise and sound business planning at an early stage of our development, which are critical for us to stand out as a fast-growing securities group in Hong Kong.

Capitalising on our own competitive advantages and our background as a China-affiliated securities firm with presence in local market, we have developed in-depth understanding of the investment needs of investors from Hong Kong and Mainland China and enlarged our client sources. We believe that we are well-positioned to leverage on the growing trend of offshore investment needs of investors and deliver financial services tailored to the needs of our clients.

We provide full-service offering that is tailored to the varying needs of our clients

We offer brokerage services and execute trading of stocks, futures, options and other securities listed in Hong Kong on behalf of clients seeking to realise gain from market movements. We are one of China Connect Exchange Participants allowing us to trade eligible stocks listed on the Shanghai Stock Exchange for our clients. We also offer trading services in respect of securities and futures traded on overseas exchanges (including the United States, Taiwan, Singapore, Australia, the U.K., and Germany) through external brokers, and these brokers (or their agents) are licensed in the respective jurisdictions to trade such securities. We provide loans and financing services to clients who seek to maximise gain through leverage or satisfy business needs through external financing. We offer investment banking services including acting as sponsor for companies seeking initial public offering or listing on the Stock Exchange, underwriting shares in IPOs and secondary offerings, underwriting bond offerings and providing financial advisory services to clients to formulate their financing strategies. We offer asset management products for clients seeking to identify the best balance of risk and growth opportunity and to create value from their assets. We also offer wealth management products such as insurance and pension schemes developed by third parties to our clients. Our full-service business enables us to expand our client base effectively.

Our wide array of service offering enables us to cross-sell our expertise developed across different service areas, deliver customised products or services and offer advice which suit the needs of our clients, create synergies through cross-selling across different business lines, optimise our client coverage effort, create new business opportunities for each product team and in turn and maximise our revenue.

We have a professional and seasoned team with diversified background

Our professional and seasoned management team has played a significant role in shaping our success to date. Our executive and non-executive Directors have over 18 years of experience on average in finance related industries and have overseen our operations since the commencement of our Group's business. Most of our senior management also possesses more than 10 years of experience in the financial related disciplines and has diversified cultural mix, including China, Hong Kong and Taiwan, enabling them to contribute global and domestic market perspectives and business acumen when formulating long-term business goal and expansion plans for our Group, better serve the needs of clients having a diverse cultural background, effectively adapt to, identify and capture business opportunities arising from market and regulatory changes, and lay down solid foundation for our future expansion into the capital market of different jurisdictions.

For mid-level management and employees, we place great emphasis on their professional training and development in their respective disciplines in order to further their technical expertise and execution capability, aiming at delivering premium services that could effectively accommodate our clients' demands. In line with the development of our new business lines, we have also actively recruited talents with experience in leading financial institutions, such as renowned banks, to further strengthen our service and execution standards. Through on-going staff training, recruitment of high quality workforce and enhancement of service quality, we believe that we have successfully cultivated customer's loyalty and translated our service into word-of-mouth reputation in the industry.

We have in place an Employee Share Participation Scheme to align the interests of our eligible employees with our Company and our Shareholders

We aim to increase the accountability of our employees in our daily operations and we have in place an Employee Share Participation Scheme for the purpose of incentivising eligible employees. See "History, Reorganisation and Group Structure – Employee Share Participation Scheme" for details. We believe that the Employee Share Participation Scheme will align the interests of our employees who are eligible participants of the scheme with our Company and all our Shareholders as a whole to promote our Group's strategies and growth. We believe that our incentive scheme and good corporate culture of promoting employee share participation enable us to make decisions more efficiently, control risks more effectively and bring us more stable operation results.

BUSINESS STRATEGIES

With the accelerating pace of the internationalisation of Renminbi, efforts to open up China's capital market have been stepped up. We believe that the pace of Chinese enterprises "going global" will be quickened and a rising number of Chinese enterprises will increase interaction with global capital markets, driving even more Chinese capital to go abroad and increasing demand amongst Chinese investors for financial services in Hong Kong. In addition, it is expected that more overseas capital will be drawn towards China, which will, in turn, further promote the expansion and opening up of the Chinese capital. The role of Hong Kong, being an offshore Renminbi centre and an important regional financial hub, has become increasingly crucial. As an important intermediary of Hong Kong's capital markets, we expect we will continue to be benefited by such trend through the implementation of the following strategies.

Optimising our client base by increasing diversification of client sources and offering customised services

We aim to optimise our client base through the following strategies:

- *Increasing diversification of client sources*: Capitalising on the increasing integration of the Chinese and Hong Kong financial markets and the trend of internationalisation of Chinese capital in recent years, we have developed a strong clientele of Chinese investors. The trading accounts of our PRC clients (i.e. clients with correspondence address or registered office in the PRC) accounted for 96.2%, 94.9% and 83.9% of our total number of trading accounts under our brokerage segment for the years ended 31 December 2014 and 2015 and for the three months ended 31 March 2016, respectively. Whilst we will continue to accommodate the needs of PRC clients, we believe that both local and overseas clients will continue to present an attractive source of business opportunity. The diversification of client sources, in particular localisation, has become an important direction for our future development. To achieve this, we plan to enhance our sales capability in both local and overseas markets by expanding our sales team to target local and overseas clients, so as to pro-actively create a landscape for balanced developments in the local and overseas markets.

- *Increasing efforts in offering customised services to cater for the varying needs of different clients*: Both Hong Kong and overseas markets are dominated by institutional investors. Given that our business has not yet gone through an extended period of development, over 90% of the trading accounts were individual investors as at 31 March 2016. With the development of our investment banking and asset management business, the proportion of institutional clients and corporate clients has already started to see gradual increase. Going forward, we will step up our efforts in developing our coverage of institutional clients and corporate clients on the basis of the development of affluent individual clients. To implement this strategy, we will consider: (i) offering personalised wealth management portfolios tailored to the needs of affluent and high net worth clients; (ii) establishing a sales team to focus on expanding our institutional and corporate client base; and (iii) encouraging cross-selling between our various business lines.

Continuing to enrich our brokerage and wealth management services

During the Track Record Period, we derived a significant proportion of our total revenue from our brokerage business and related services. We will continue to enrich our securities and futures brokerage services, enhance our market share and accelerate the development of our Hong Kong and overseas client base. Through taking advantage of the PRC's various preferential policies regarding Hong Kong (such as Shanghai-Hong Kong Stock Connect, the proposed Shenzhen-Hong Kong Stock Connect and the recently promulgated new Foreign Exchange Administrative Measures on Investment in Domestic Securities by Qualified Foreign Institutional Investors (which introduced a more transparent investment quota regime and relaxed capital remittance requirements)), we strive to enrich our products and services, enhance talent nurturing and boost our service capabilities in relation to cross-border opportunities for our brokerage and wealth management business lines.

We will gradually transform ourselves from a conventional securities brokerage firm to an integrated service provider for client wealth management. To achieve this, we have already established a team for distribution of insurance and financial products. We plan to continue to enlarge the scope of our brokerage services and deepen our cooperation with various professional investment institutions, such as mutual funds, private equity funds, hedge funds, banks, insurance and trust companies to grow our institutional client base and increase the revenue contribution of our brokerage services. Besides, tapping the advantage of the Internet-based financial platform, subject to the compliance with the applicable regulatory requirements, we will proactively explore and innovate the financial direct sales model and offer "one-click" comprehensive wealth management services, thereby realising the "dual enhancement" of both asset yields and profit contribution.

Enhancing our asset management, investment banking, institutional sales and research service capabilities

We will continue to develop our asset management and investment banking business lines and establish an in-house research team to achieve balanced growth as an integrated and full-service securities group.

- *Accelerate the development of our asset management business*

We strive to forge a bi-directional investment platform for overseas investments of mainland China capital as well as mainland China-bound investments of overseas capital, focusing on the development of such alternative investment products as passively managed products to achieve a rapid, sound growth of the total size of the assets under management. We plan to establish a fund management and product issuance platform where the alternative investment segment will represent our product focus, and where domestic and foreign products that attract close attention from the market will be offered, leading to the formation of an integrated marketing scheme.

- *Promote the development of our investment banking business*

We will leverage on the business and industry strengths that we have gathered to capture potential client needs, and offer more diversified range of financing services and platforms such as advisory for mergers and acquisitions and takeovers of companies listed on the Stock Exchange to our existing and potential clients. We will also seek to expand our investment banking client base by tapping our wealth of resources consisting of institutional clients and affluent individual clients and develop potential opportunities such as sponsorship for listing applications.

• *Rapidly developing our sales and research capabilities for institutional clients*

We plan to develop our sales and research capabilities by establishing a research team tailored to our business needs and future development and become an influential research institution in Hong Kong and overseas. Our research team to be established will focus on the research in China-affiliated enterprises listed in Hong Kong and overseas markets, offer quality research support services to institutional investors both home and abroad and assist them in embracing various challenges amidst the surging wave of overseas assets allocation. We will closely track the business growth of target listed companies and conduct in-depth analyses of the corporate fundamentals, in order to drive the development of the sales transaction business using quality research outcomes and services, continuously expand the breadth of coverage of listed companies and the depth of relevant research, and deepen our interactive collaboration with institutional investors. The ultimate aim is to forge not only a powerful research services platform, but also a sales transaction platform as well as a capital matching platform for investments and fund raising dedicated to institutional investors to develop our institutional sales capabilities. We aim to focus our research coverage over Hong Kong stocks as well as overseas stocks and cultivate and recruit top analysts for key research areas to broaden our coverage for overseas institutional investors.

We intend to apply 20% in aggregate of the [**REDACTED**] from the [**REDACTED**] to fund the development of our asset management and investment banking businesses and our institutional sales capabilities.

Expanding our capital-based intermediary business with our strong capital base

During the Track Record Period, a significant proportion of our revenue was derived from charge-based businesses, namely, brokerage commissions, management fees and commissions on fund raising. Such businesses are more susceptible to stock market fluctuations. Further, with the intensification of market competition, the rates of various charge-based businesses have exhibited a gradual decreasing trend. Going forward, we plan to adopt a more capital-driven approach to provide clients with liquidity and risk management services for meeting their needs and increase our focus on the development of capital-based intermediary business starting in fixed-income business, and then gradually entering other capital-based intermediary business areas such as market maker business and derivatives business.

The capital-based intermediary business lines will become a crucial business segment that we would increase our efforts in expanding. To tap into the growing financing needs of our clients as well as to enlarge the customer base of institutional clients who have strong demand for both financing and other financial services that we are offering such as brokerage and investment banking services, thereby creating more cross-selling opportunity, we intend to further our loans and financing capability. To achieve this, in addition to the existing bank borrowings and internal resources, we intend to apply 40% of the [**REDACTED**] from the [**REDACTED**] to fund our future capital requirement for developing our loans and financing business. The application of net [**REDACTED**] from the [**REDACTED**] for our loans and financing business would allow us to diversify the source of funding.

Apart from further developing our conventional loans and financing business, we will increase our efforts in proprietary trading and further expand into other new capital-based intermediary businesses such as market making for stocks and bonds, foreign exchange and commodity transactions, financing related to mergers, acquisitions and reorganisations, derivatives, and private equity investments. To achieve this, we plan to establish a market-making team tailored to our business needs and futures development. Our market-making team will offer market-making services for exchange traded and non-exchange traded products, such as futures and options, stock options, ETF, commodities, bonds and structured notes. etc., which will give us a competitive advantage in offering customised solutions to meet the investing, financing, liquidity and risk management and hedging needs of clients. We intend to apply 30% in aggregate of the [**REDACTED**] from the [**REDACTED**] as funding for our development in this regard.

OUR BUSINESS

We provide a wide array of financial services targeted to high net worth individual clients, corporations and financial institutions. Our main products and services by business lines comprise the following:

Business Lines	**Main Products and Services**
Brokerage	• Securities brokerage • Futures and options brokerage
Loans and financing	• Margin financing • Money lending
Investment banking	• Fund raising services • Sponsorship for listings • Financial advisory
Asset management	• Collective investment management schemes • Discretionary account management • Investment advisory

In addition to the products and services above, we also engaged in proprietary trading during the Track Record Period and commenced our wealth management business in December 2015.

The following table sets forth a breakdown of our revenue by segment for the period indicated:

	For the year ended 31 December				For the three months ended 31 March			
	2014		2015		2015		2016	
	(HK$ in millions)	*%*	*(HK$ in millions)*	*%*	*(HK$ in millions) (unaudited)*	*%*	*(HK$ in millions)*	*%*
Commission and fee income from brokerage services	45.3	37.7	175.2	48.1	20.5	38.2	23.9	30.0
– Securities	24.0	20.0	115.6	31.7	10.6	19.7	17.5	22.0
– Futures and options	21.3	17.7	59.6	16.4	10.0	18.5	5.8	7.3
– Insurance brokerage	–	–	–	–	–	–	0.6	0.7
Income from loans and financing services	10.0	8.3	127.0	34.9	9.7	18.1	52.9	66.3
– Interest income from margin financing	8.1	6.7	107.1	29.4	7.1	13.2	47.8	59.9
– Interest income from money lending	1.9	1.6	19.9	5.5	2.6	4.9	5.1	6.4
Commission on and advisory fees from investment banking services	20.1	16.8	25.6	7.0	1.6	2.9	1.4	1.8
– Commission on fundraising	18.1	15.1	21.0	5.8	0.3	0.5	0.4	0.5
– Sponsor fee income	–	–	2.4	0.7	–	–	1.0	1.3
– Financial advisory fee income	2.0	1.7	2.2	0.6	1.3	2.4	–	–
Fees from asset management services	1.2	1.0	7.1	1.9	0.9	1.7	1.5	1.9
– Asset management fee income	0.8	0.7	5.5	1.5	0.8	1.4	1.0	1.3
– Investment advisory fee income	0.4	0.3	1.5	0.4	0.2	0.3	0.5	0.6
Proprietary trading	43.4	36.2	29.4	8.1	21.0	39.1	–	–
– Debt securities	43.2	36.0	28.4	7.8	20.8	38.7	–	–
– Others	0.2	0.2	1.0	0.3	0.2	0.4	–	–
Total	120.0	100.0	364.3	100.0	53.8	100.0	79.8	100.0

Brokerage

Overview

Our brokerage business is conducted through our wholly-owned subsidiaries, CISI Brokerage, which is licensed to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO, and CISI Futures, which is licensed to carry on Type 2 (dealing in futures contracts) regulated activity.

We execute trades on our clients' behalf in equity securities and futures contracts traded on the Stock Exchange. We offer brokerage services through our sales team comprising in-house client managers and self-employed account executives, all of whom are licensed under the SFO. As at 31 December 2014, 31 December 2015 and 31 March 2016, we had 13, 24 and 24 client managers, respectively. Client managers are primarily responsible for providing advice and various client services to our clients, such as receiving and passing client's orders or instructions to the operations departments. In addition, our client managers may provide investment information (if incidental to our brokerage service under the scope of our Type 1 licence), such as the latest buy/sell prices and trading volume of the relevant stocks, to clients to assist them in placing well-considered orders. We also offer trading services in respect of securities and futures traded on overseas exchanges (including the United States, PRC, Taiwan, Singapore, Australia, the U.K. and Germany) through external brokers, and these brokers (or their agent) are licensed in the respective jurisdictions to trade such securities. We maintain securities and futures trading accounts with our external brokers and have entered into standard brokerage agreements with them, covering the brokerage services provided to us, account opening, manner of giving and receiving instructions to and by the broker and settlement arrangements. We are required to pay commissions and fees to the external brokers at agreed rates for orders we placed with them on behalf of our customers. We separately charge our customers commissions and fees at a rate that we consider appropriate after taking into consideration of our expenses. The external brokers are responsible for carrying out our transaction instructions in a timely and professional manner as well as safekeeping the assets in our designated accounts with them and we are responsible for timely settlement of the transaction amounts, commissions and fees payable to the external brokers for the orders we placed with them as well as complying all relevant laws and regulations. Pursuant to the agreement, we may authorise the external brokers to appoint an agent to handle our orders. We handle orders received from our own clients through the trading accounts maintained with external brokers and our external brokers charge us commission for executing such trades. As we do not have actual brokerage activities in such overseas jurisdictions, we are not required to obtain licenses in such jurisdictions. Our Responsible Officers are responsible for overseeing our day-to-day trading and dealing operations.

To leverage on the established client network and accumulated experience while minimising our staff cost, we also engage account executives who are self-employed to execute trades on our client's behalf. Account executives are not our employees, and compared to our in-house client managers who are generally entitled to basic remuneration and performance-based bonus, these account executives are entitled to share with us a pre-determined percentage of brokerage commission received by us from transactions executed for our clients. As at 31 December 2014, 31 December 2015 and 31 March 2016, we had three, 43 and 53 self-employed account executives under our securities and futures and options brokerage business who are primarily responsible for sourcing clients and handling client relationship, as well as carrying out sales and dealing procedures for the clients referred by them. For the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, HK$133,392, HK$37.9 million and HK$7.1 million (or 0.3%, 21.7% and 29.6% of our total commission and fee income) was paid to account executives as their sales commission. The ratio of commission sharing is negotiated on a case-by-case basis, and is determined by reference to the prevailing market rate, mutual negotiation, track record and performance of these account executives. We enter into agency agreement with our account executives setting out the role of the account executives, commission sharing arrangement, trading arrangements and termination events. We closely monitor their performance through reviewing the daily, monthly and year-to-date reports. In case where any loss or liability incurred by us was due to the fraud or wilful default of the account executives engaged by us or where there is any unsettled trade or margin loan balance due from the client referred by them, the responsible account executives shall indemnify us for any such loss or liability, whereas our in-house client managers are not required to provide such indemnity to us. Save for the above, there is no material difference between our in-house client manager and the self-employed account executives in terms of their professional qualifications as well as the licencing requirements, and all of them are licensed persons to carry on regulated activities. These account executives maintain their relevant licences with CISI Brokerage and CISI Futures only and thus, they are only allowed to conduct the relevant regulated activities in such capacity.

We will only take orders or instructions from clients who have completed our account opening procedures including the signing of account opening forms, client agreements and in certain cases, letters of authorisation or powers of attorney. Our clients will have to agree that neither we nor any of our officers, employees or agents shall be liable to them for any loss or liability which they may incur (including losses and liabilities resulting from any transactions involving securities trading executed by any account executive) unless due to fraud or wilful default on the part of us. Our clients take full responsibility for all trading decisions in their securities trading accounts and we are responsible only for the execution, clearing and carrying out of transactions in such accounts.

To personalise our brokerage services, depending on the specific needs of our clients, we also offer ancillary services such as securities custody, dividend collections, and IPO applications and we charge handling/administrative fees for providing such services.

Brokerage business has been our core business segment and revenue from this segment represented a significant portion of our total revenue and other income during the Track Record Period. For the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, commission and fee income from our brokerage business amounted to HK$45.3 million, HK$175.2 million and HK$23.9 million, respectively, representing 37.7%, 48.1% and 30.0% of our total revenue and other income, respectively, during those years or period.

We received insurance brokerage commission income during the three months ended 31 March 2016 from our wealth management business, which commenced in December 2015. For further details, see "Our Business – Wealth management business" in this section.

Securities brokerage

We engage in the trading of various securities products on behalf of our clients, including:

- ***Stocks:*** stocks of listed companies on the Stock Exchange and other stock exchanges worldwide, including the United States, Taiwan, Singapore, Australia, the U.K., and Germany. We are one of China Connect Exchange Participants allowing us to participate in Shanghai-Hong Kong Stock Connect (i.e. trading eligible stocks listed on the Shanghai Stock Exchange);

- ***Funds:*** authorised funds and ETFs;

- ***Bonds:*** treasury bonds, corporate bonds and convertible bonds; and

- ***Derivatives:*** Stock Exchange traded warrants, CBBCs and stock options.

The following table sets forth our gross commission income (excluding other commission and fee income) and trading turnover for our securities brokerage business by market for the periods indicated:

	Year ended 31 December				Three months ended 31 March	
	2014		2015		2016	
	Trading turnover	Gross commission income	Trading turnover	Gross commission income	Trading turnover	Gross commission income
			(HK$ in millions)			
Securities						
Hong Kong	15,510.1	16.4	88,998.4	85.4	11,471.9	13.5
PRC *(Note 1)*	498.6	0.6	4,509.4	4.5	1,064.4	1.0
Others *(Note 2)*	1,918.3	3.7	2,127.0	4.3	538.2	1.3
Total	**17,927.0**	**20.7**	**95,634.8**	**94.2**	**13,074.5**	**15.8**

Notes:

1. PRC securities is comprised of B shares and shares traded through the Shanghai-Hong Kong Stock Connect.

2. Others refer to securities traded on other overseas exchanges (including the United States, Taiwan, Singapore, Australia, the U.K. and Germany) through external brokers.

Futures and options brokerage

We provide our futures and options brokerage services through our subsidiary CISI Futures. We offer a diverse range of local and global futures and options contracts trading services, including (a) financial futures, namely, index futures, treasury-bond futures, currency futures and interest rate futures; and (b) commodity futures, such as metal futures, energy futures and agriculture futures. Our futures trading system has been connected to the latest Automatic Order Matching and Execution System (CLICK TRADE XT), through which transaction instructions are delivered to the Futures Exchange for order matching, execution and settlement to be carried out efficiently. Similar to our securities brokerage services, we also offer futures trading services on overseas exchanges through external brokers, and these brokers (or their agent) are licensed in the respective jurisdictions to trade such futures. We enter into standard agreement with these external brokers, covering the services provided to us, account opening, deposit requirements, manner of giving and receiving instructions and settlement arrangements. As we do not operate in such overseas jurisdictions, we are not required to obtain licenses in such jurisdictions. In addition to our online trading platform, we also operate a 24-hours hotline to accept orders placed by clients over the telephone for trading in over ten markets worldwide. Futures brokerage clients are required to maintain our minimum deposit requirement before they could execute trades on futures contracts through our platforms.

The following table sets forth our gross commission income (excluding other commission and fee income) and the number of contracts executed by our clients for our futures and options brokerage business by market for the periods indicated:

	Year ended 31 December				Three months ended 31 March	
	2014		2015		2016	
	Number of contracts	Gross commission income	Number of contracts	Gross commission income	Number of contracts	Gross commission income
	(HK$ in millions, except number of contracts)					
Futures and options						
United States	265,713	12.3	845,113	31.2	87,260	3.3
Singapore	147,674	4.8	575,096	22.3	27,982	0.7
Hong Kong	26,091	0.6	71,287	2.2	12,017	0.3
Others	45,820	3.3	97,269	3.9	26,624	1.4
Total	485,298	21.0	1,588,765	59.6	153,883	5.7

Note: The United States market mainly consists of financial and commodity futures traded on the CME Group exchange. The Singapore market mainly consists of commodity futures traded on the Singapore Exchange. The Hong Kong market mainly consists of financial futures traded on the HKEX futures exchange. Others include commodity futures traded on the London Metal Exchange and on Bursa Malaysia.

Brokerage commission and fee income

We charge commission and fees from customers who trade through our trading platforms. The following table sets forth the securities and futures brokerage trading turnover, gross commission income, other commission and fee income and average brokerage commission rate from our brokerage business for the periods indicated:

	Year ended 31 December		Three months ended 31 March
	2014	**2015**	**2016**
Securities brokerage			
Trading turnover (HK$ in millions)	17,927.0	95,634.8	13,074.5
Gross commission income (HK$ in millions)	20.7	94.2	15.8
Average brokerage commission rate (%)	0.12	0.10	0.12
– Trades conducted by our client managers or account executives (%)	0.14	0.09	0.10
– Trades conducted by client through online trading platform (%)	0.12	0.10	0.12
Futures and options brokerage			
Number of contracts	485,298	1,588,765	153,883
Gross commission income (HK$ in millions)	21.0	59.6	5.7
Average brokerage commission per contract (HK$)	43.3	37.5	37.6
Other commission and fee income *(Note)*	3.6	21.4	2.4
Total commission and fee income (HK$ in millions)	45.3	175.2	23.9

Note: Mainly consists of IPO application, clearing and handling fees and insurance brokerage commission income from our wealth management business.

The brokerage commission for each client varies and is generally determined by reference to the prevailing market rates, historical and future trading volume, the channel for placing orders, the financial positions and credit profile of each client and the total value of the position (if any) in the cash account(s) maintained by each client with us. For the two years ended 31 December 2015, in line with the general market trend, our average brokerage commission rate experienced a slight decrease, which was attributed primarily to the increase in the number of good quality clients with higher net worth, higher trading frequency and/or higher trading volume to whom we offered a more favourable commission rate as compared to the average in 2014. To counteract such effect, it is our strategy to continue to enlarge our client base, retain existing clients and diversify our revenue sources through enriching our service and product offering, such as provision of services ancillary to our brokerage services which generate other commission and fee income, promoting service and products of our other business lines to create cross-selling opportunities to maximise fee income from the same client, and enhancing our service and operational capabilities, such as enhancing the features and capacity of our internet trading platform, which in turn, will expand our trading volume and commission income.

Brokerage clients

As at 31 March 2016, we had a total of 16,870 brokerage trading accounts comprising 16,283 trading accounts of individual clients and 587 trading accounts of institutional and corporate clients. Out of all brokerage trading accounts, 2,046 were active accounts of our individual clients and 113 were active accounts of institutional and corporate clients. Our institutional clients are mainly financial institutions and corporate clients. The following table sets forth the number of active accounts (i.e. accounts which recorded at least one trading activity in the past twelve months) and total trading accounts of our brokerage business as at the date indicated:

	As at 31 December				As at 31 March	
	2014		2015		2016	
	Active	Total	Active	Total	Active	Total
Securities brokerage						
– *Individual client accounts*	2,004	7,537	4,067	13,899	1,926	14,685
– *Institutional and corporate client accounts*	28	108	133	402	99	501
Sub-total	2,032	7,645	4,200	14,301	2,025	15,186
Futures and options brokerage						
– *Individual client accounts*	69	432	144	1,060	120	1,598
– *Institutional and corporate client accounts*	7	22	14	63	14	86
Sub-total	76	454	158	1,123	134	1,684
Total	**2,108**	**8,099**	**4,358**	**15,424**	**2,159**	**16,870**

The following table sets forth the number of our brokerage accounts in terms of account age as at the dates indicated:

	As at 31 December								As at 31 March			
	2014				2015				2016			
	Active	(%)	Total	(%)	Active	(%)	Total	(%)	Active	(%)	Total	(%)
Account Age												
– more than two years	281	13.3	1,729	21.3	998	22.9	4,217	27.3	429	19.9	5,292	31.4
– one year to two year	717	34.0	2,482	30.7	1,137	26.1	3,886	25.2	594	27.5	4,019	23.8
– less than one year	1,110	52.7	3,888	48.0	2,223	51.0	7,321	47.5	1,136	52.6	7,559	44.8
Total	**2,108**	**100**	**8,099**	**100**	**4,358**	**100**	**15,424**	**100**	**2,159**	**100**	**16,870**	**100**

The following table sets forth a breakdown of our active brokerage accounts as at the dates indicated by frequency of trades during the year:

	As at 31 December			
	2014		2015	
	Active accounts	(%)	Active accounts	(%)
Number of trades during the year				
– more than 30	382	18.1	1,194	27.4
– 10 to 30	484	22.9	1,167	26.8
– less than 10	1,242	59.0	1,997	45.8

For the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, our largest brokerage client accounted for 21.1%, 13.6% and 4.2% of the total revenue from our brokerage business, respectively. During the same period, revenue attributable to our top five brokerage clients in aggregate amounted to 45.1%, 31.7% and 14.7%, respectively, of the total revenue from our brokerage business.

Trading platforms

To increase the convenience of our clients and expand our client reach, we provide our clients with multiple trading platforms. Clients could trade remotely via telephone or personal computer and place orders or instructions through such channels. With the increasing proliferation of smartphones and other mobile devices, since 2012 we have rolled out multi-platform electronic trading services, allowing our clients to obtain real-time access to our brokerage services, obtaining latest price quotes, perform transactions in respect of products covering Hong Kong stocks, Shanghai-Hong Kong Stock Connect, B shares, US stocks, Canadian stocks, local futures and global futures, etc., and monitoring transaction status online everywhere, with his or her smartphones or tablets. Online buy/sell orders are automatically transmitted to our electronic trading system which is connected to the Stock Exchange's trading system and provides automatic matching and execution of buy/sell orders received from clients. Therefore, no involvement of dealers is required for client's trading activities performed online. For each of the two years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, value of transactions with orders placed online (excluding cancelled orders which did not consummate) accounted for approximately 91.5%, 63.4% and 48.3% respectively of our brokerage business's total value of transactions.

Loans and financing

Overview

We began providing margin financing in 2012 and expanded our service offering to provide money lending in 2014. Our loans and financing business comprises two sub-segments, namely margin financing under Type 1 regulated activity and money lending under our Money Lenders Licence. Our margin financing is complementary to our brokerage business, enabling our securities brokerage clients to obtain short-term liquidity with our financing services to fund their securities purchases. Under our margin financing business, we take collaterals from margin clients who wish to finance their securities purchases and we offer financing to such clients, thereby giving funding flexibility to our clients by assisting them to leverage their investments. We also advance loans to clients through our money lending services to provide our clients with additional funding channel and funding flexibility for their personal or corporate needs.

Our loans and financing business is characterised by its capital-intensive nature. Loans provided to our clients are sourced mainly from our external borrowing from banks and financial institutions, cash from our operating activities and internal resources. The multiple sources of funding allows us to effectively leverage up our capital structure to capture the surging financing demand from our clients, which in turn, fuel the expansion of and maximise our return from this business segment. After [**REDACTED**], to further develop this line of business and reduce our cost of funding in order to stay competitive, we intend to apply 40% of the net [**REDACTED**] from the [**REDACTED**] to provide capital for our loans and financing business. If such amount of the net [**REDACTED**] from the [**REDACTED**] is not sufficient to satisfy our capital requirements for the expansion of our loans and financing business, we will continue to seek other external funding resources in the form of debt or equity as we consider appropriate under the then prevailing market conditions to fund our future capital requirements.

To manage the associated credit exposure arising from our loans and financing business, we have margin requirements, credit assessment and internal control procedures. We also require our clients to provide sufficient collateral and further security (if any) when we make the loans or advances and we may seek for additional collateral or further security during the term of the loan to manage our exposure against fluctuation of the value of collateral received. The collateral in most cases is in the form of listed securities. For details, see "Business – Risk management and internal control – Monitoring and management of major risks – Credit risks". See also "Risk Factors – Risks associated with our business operations – Our loans and financing business could be materially and adversely affected by the decline in market value of the collateral or client's default in repayment".

Margin financing

Our margin financing business is conducted by our wholly-owned subsidiary CISI Brokerage, which is licensed to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO. Clients who obtain margin financing from CISI Brokerage may only use such financing for securities trading through their accounts with us. We have expanded our client base for our margin financing business rapidly during the Track Record Period, with 1,964, 6,822 and 7,214 margin accounts (of which 911, 2,170 and 1,181 were active margin accounts) maintained with us during the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, respectively. Our margin financing services are provided generally for an initial term of 12 months subject to renewal, and our agreements with clients typically include terms such as the credit line, collateral requirements, margin call policy, interest rate and risk disclosure. The credit line (i.e. lending limit) we grant to margin clients varies for each client. Margin clients must also satisfy our margin requirements. Every margin client shall maintain a required amount of cash deposit and/or acceptable securities in line with the approved margin ratio with us when we extend margin loans to him or it. See "Business – Loans and financing – Collaterals" for details.

The following table sets forth a summary of the key operating and financial information of our margin financing business:

	31 December		31 March
	2014	**2015**	**2016**
	(HK$ in millions, except for ratio)		
Total margin loan balance as at	411.7	2,421.3	2,484.6
Total market value of collateral held as at	1,543.5	8,940.8	8,639.6
Average margin ratio (%) as at *(Note 1)*	26.7	27.1	28.8
Range of month-end margin ratio (%) on an aggregate basis *(Note 2)* for the year/period ended	17.5 – 26.7	25.7 – 34.6	28.8 – 30.5

Notes:

(1) Average margin ratio is calculated as margin loan balance as at 31 December 2014 and 2015 and 31 March 2016 divided by the market value of the collateral held as at the same date.

(2) Such ratio is calculated based on the aggregated margin loan receivables divided by the total market value of the collateral held for margin loans as at the end date of the relevant month during the relevant year/period.

As at 31 December 2015, our total margin loan balance increased significantly when compared with that as at 31 December 2014 which primarily reflected our enlarged capability to provide margin financing, and since we took collateral of sufficient value from our margin clients to manage our risk exposure, the total market value of the collateral also increased significantly while our average margin ratio for the same periods remained stable.

The following table sets forth a breakdown of margin loan balance of our clients' margin accounts maintained with us for the periods indicated:

	31 December		31 March
	2014	2015	2016
	(HK$ in millions)		
Margin loan			
Total balance as at	411.7	2,421.3	2,484.6
Average month-end balance of all margin loans for the period ended	204.5	1,622.0	2,686.9
Average day-end balance per margin account for the period ended	1.5	2.9	3.4
Highest month-end balance of all margin loans for the period ended	411.7	2,421.3	2,803.5
Lowest month-end balance of all margin loans for the period ended	92.9	586.0	2,484.6

Note: Period for the period ended 31 December 2014 and 2015 means the year ended 31 December 2014 and 2015, respectively. Period for the period ended 31 March 2016 means the three months ended 31 March 2016.

The highest month-end and average month-end balance of our margin loans increased significantly for the year ended 31 December 2015 primarily due to our enlarged capabilities to provide margin financing, our expanded client base and the surging demand from our clients for conducting margin trades, which was largely driven by active stock market in Hong Kong in 2015.

For the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, our largest margin financing client accounted for 21.1%, 8.6% and 9.5% of the total revenue from our margin financing business, respectively. During the same period, revenue attributable to our top five margin financing clients in aggregate amounted to 58.0%, 25.2% and 24.5%, respectively, of the total revenue from our margin financing business.

Money lending

Our money lending business is conducted by our wholly-owned subsidiary, CISI Finance, which is a licensed money lender under the Money Lenders Ordinance. Different from margin financing which could only be used by our clients exclusively for securities purchases, money lending clients may apply the loans obtained from CISI Finance for personal or corporate purposes. We provide fixed-term loans to clients with maturity periods up to 24 months. We enter into loan agreement with our clients, which typically sets out the parties, date of the agreement, principal amount, collateral requirements, maturity date, interest period, interest rates, events of default and a summary of provisions of Part III and Part IV of Money Lenders Ordinance. Upon expiry of the initial term, loans may be renewed based on our assessment on the financial background of the client, the quality of the collaterals and any further security, the creditability of the client, the funds available to us at the time of the renewal and the prevailing market environment.

As at 31 December 2014 and 2015 and 31 March 2016, we had seven, nine and 10 money lending clients, respectively, of which seven, eight and nine were also our margin financing clients. The remaining one client was our brokerage client. For those money lending clients who were also our margin clients, we held separate collateral for their margin financing and money lending transactions with us and the total value of such collateral in aggregate was sufficient to cover the total loan balance of that client as at 31 December 2014 and 2015 and 31 March 2016. The collateral typically provided by money lending clients is the listed securities held in their cash accounts with us. In addition to secured loans, we may, based on our risk and credit assessment, agree to make unsecured loan to money lending clients on a case-by-case basis. As at 31 December 2014 and 2015 and 31 March 2016, we had nil, nil and one unsecured loan of HK$2.0 million, respectively, made to money lending client which was provided after our background check and credit assessment of the client. Among our money lending clients, we had renewed totally 13 loans in the accumulated amount of HK$296.3 million and two loans in the accumulated amount of HK$14.8 million for the year ended 31 December 2015 and the three months ended 31 March 2016, respectively. We did not renew any loans for the year ended 31 December 2014. We do not set a limit on the number of times that a loan can be renewed during a year. As at 31 December 2014 and 2015 and 31 March 2016, there were eight, 12 and 13 loans under our money lending business remained outstanding.

The following table sets forth a summary of the key operating and financial information of our money lending business for the periods indicated:

	31 December 2014	31 December 2015	31 March 2016
	(HK$ in millions, except for ratio)		
Money lending			
Total loan balance as at	157.5	282.3	264.6
Total market value of collateral held as at	720.0	1,963.6	1,881.5
Average loan-to-value ratio (%) *(Note 2)* as at	21.9	14.4	14.1
Average month-end balance of all money lending loans for the period ended	38.3	241.6	271.0
Average day-end balance per loan agreement for the period ended	15.2	26.7	27.7
Range of month-end loan-to-value ratio (%) on an aggregate basis *(Notes 3 and 4)* for the year/period ended	12.1 – 66.5	13.9 – 19.0	14.1 – 14.8
Highest month-end balance of all money lending loans for the period ended	157.5	319.7	281.8
Lowest month-end balance of all money lending loans for the period ended	–	150.5	264.6
Interest income	1.9	19.9	5.1

Notes:

(1) Period for the period ended 31 December 2014 and 2015 means the year ended 31 December 2014 and 2015, respectively. Period for the period ended 31 March 2016 means the three months ended 31 March 2016. As our Group commenced its money lending business in February 2014, the month ended 31 January 2014 has been excluded in preparing the information shown in this table.

(2) Average loan-to-value ratio is calculated as total loan balance as at 31 December 2014 and 2015 and 31 March 2016 divided by the total market value of collateral held as at the same date.

(3) Such ratio is calculated based on the aggregated money lending loan receivables divided by the total market value of the collateral held for loans under money lending sub-segment as at the end date of the relevant month during the relevant year/period.

(4) As we commenced our money lending business in 2014, the upper range of our month-end loan-to-value ratio of 66.5% on an aggregate basis during the same year was contributed by the only loan we granted to one money lending client at the commencement stage of this business and the subsequent decrease in the value of the collateral provided by him, resulting in a relatively higher ratio on an aggregate basis recorded during that period. As the number of money lending clients increased gradually after the commencement stage of this business line, the total value of the collateral provided by them for the money lending loans increased accordingly, contributing to a lower range of month-end loan-to-value ratio on an aggregate basis for the year ended 31 December 2015 and the three months ended 31 March 2016.

The following table sets forth a breakdown of the outstanding loans of our money lending business by loan size as at the date indicated:

	As at 31 December						As at 31 March		
	2014 *(HK$ in millions)*	**No. of loans**	**(%)**	**2015** *(HK$ in millions)*	**No. of loans**	**(%)**	**2016** *(HK$ in millions)*	**No. of loans**	**(%)**
Over HK$50 million	70.0	1	44.4	150.0	1	53.2	150.0	1	56.7
Over HK$30 million to HK$50 million	–	–	–	–	–	–	–	–	–
Over HK$10 million to HK$30 million	70.0	3	44.4	97.5	6	34.5	65.0	4	24.6
Up to HK$10 million	17.5	4	11.2	34.8	5	12.3	49.6	8	18.7
Total	**157.5**	**8**	**100**	**282.3**	**12**	**100**	**264.6**	**13**	**100**

The following table sets forth the movement of loans of our money lending business for the periods indicated:

	2014	**2015**
	(HK$ in millions)	
Loan balance as at 1 January	**–**	**157.5**
Amount of new loan granted during the year ended 31 December	165.5	390.0
Amount of loan repaid during the year ended 31 December	(8.0)	(265.2)
Loan balance as at 31 December	**157.5**	**282.3**

	2016 *(HK$ in millions)*
Loan balance as at 1 January	**282.3**
Amount of new loan granted during the three months ended 31 March	2.0
Amount of loan repaid during the three months ended 31 March	(19.7)
Loan balance as at 31 March	**264.6**

The following table sets forth the breakdown of the balance of the outstanding loans by maturity profile of as at the dates indicated:

	As at 31 December						As at 31 March		
	2014 *(HK$ in millions)*	**No. of loans**	**(%)**	**2015** *(HK$ in millions)*	**No. of loans**	**(%)**	**2016** *(HK$ in millions)*	**No. of loans**	**(%)**
Maturity profile									
– Due within 1 year	150.5	7	95.6	282.3	12	100	262.6	12	99.2
– Due in over 1 year but not more than 2 years	7.0	1	4.4	–	–	–	2.0	1	0.8
Total	**157.5**	**8**	**100**	**282.3**	**12**	**100**	**264.6**	**13**	**100**

For the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, our largest money lending client accounted for 36.6%, 34.3% and 60.1% of the total revenue from our money lending business, respectively. During the same period, revenue attributable to our top five money lending clients in aggregate amounted to 93.4%, 67.9% and 88.8%, respectively, of the total revenue from our money lending business. As at 31 March 2016, the loan receivables which amounted to HK$150 million, HK$30 million and HK$30 million, respectively, were from our largest, second largest and third largest money lending clients, all of whom were Independent Third Parties and had business relationship with us for over one year. These three clients comprised two high net worth individual clients (who were professional investors) and one high net worth corporate client (which was the holding company of a Hong Kong listed company), and their loan receivables in aggregate accounted for 79.4% of our total loan receivables as at 31 March 2016. As at 31 March 2016, the loan-to-value ratio (if only the value of collateral separately provided for money lending loans is taken into account) of the loans receivable from each of our largest, second largest and third largest money lending clients was 8.6%, 101.4% and 140.0%, respectively. The collateral provided by these clients comprised the shares of the Main Board listed companies. As at 31 March 2016, (a) the listed securities separately pledged by our largest money lending client as collateral for its money lending loans comprised the shares of one Main Board listed company whose market capitalisation was around HK$39 billion; (b) the listed securities separately pledged by our second largest money lending client as collateral for her money lending loans comprised the shares issued by four Main Board listed companies whose market capitalisation was in the range of HK$1.7 billion to HK$169 billion; and (c) the listed securities separately pledged by our third largest money lending client as collateral for her money lending loans comprised the shares issued by one Main Board listed company whose market capitalisation was over HK$4.2 billion.

We entered into loan extension agreements with each of our largest, second largest and third largest money lending clients in the amount of HK$150 million, HK$15 million and HK$10 million, respectively, in May and June 2016, for fulfilling their respective financing needs. Based on our assessment on the recoverability of the loans with reference to the background and credit history of the relevant clients and the aggregate value of all collateral held by our Group, we agreed to extend the term of these loans for two to three months. These clients have duly made interest payments in accordance with the initial term of the loan prior to the extensions and the term of the loan as extended. Subsequently, repayments of HK$30 million and HK$30 million were received in July and August 2016 in respect of the loans due from our second largest and our third largest money lending clients as at 31 March 2016. As at 26 August 2016, the total loan receivables due from these two lending clients was nil. The loan receivables due from our largest money lending client in the amount of HK$150 million with a loan-to-value ratio of 8.1% as at 7 September 2016 had been repaid as at 12 September 2016.

Collaterals

When we grant margin loans, we require our clients to provide sufficient collateral to cover the loan amount. Normally only securities quoted on the Stock Exchange are eligible as collateral. A list of eligible securities in relation to which we grant margin loans is posted on our website. We may also accept other marketable assets comprising securities traded on foreign exchanges and bonds on a case-by-case basis after review by our senior management. Based on our policy, when we grant the loan, we set a margin ratio (i.e. expressed, as the ratio of the margin loan advanced to the market value of the collateral) from 10% to 70% which each client is required to maintain during the term of the loan. The margin ratio represents the maximum percentage of financing our client can receive against the value of collateral in his or her account. In the event where we notice that the ratio of the outstanding margin loan granted to the relevant client to the value of the collateral provided by that client has reached our approved ratio, a margin report will be automatically generated by our system and it is our standard procedure to issue a margin call and request that client to fulfil our margin call either by depositing additional funds to the respective securities margin accounts, closing out the securities or pledging or providing additional collateral to top up the market value of pledged securities to restore his margin ratio to the approved ratio and/or providing further security to cover our exposure where necessary. Criteria assessed when setting the margin ratio includes market capitalisation, type, liquidity and volatility of the securities provided and the financial position of the relevant listed issuers. The following table sets forth the breakdown of applicable margin ratios for acceptable securities (which are Hong Kong listed securities) as collateral used in our margin financing business as at 31 March 2016:

Applicable margin ratio (%)	**Number of acceptable securities as collateral** *(Note)*	**Percentage of acceptable securities as collateral (%)**
50-70	174	22.9
30-40	166	21.8
10-25	421	55.3
Total	**761**	**100**

Note: The acceptable securities as collateral referred to in the table above are exclusive under each range of margin ratio.

In case where our client fails to fulfill our margin call within a prescribed time period, we are entitled to exercise our rights to mandatorily liquidate the pledged securities in accordance with the client agreement for margin accounts signed with our client. We may defer the mandatory liquidation process after assessment on the recent performance of the collateral (such as its liquidity and price), the prevailing market conditions, the potential impact of mandatory liquidation on the market price of the collateral and any potential loss that may arise from such exercise, balanced against the recoverability of the margin loans, taking into account the quality of the collaterals, the trading history and credit profile of our client, whether any additional collateral or financial comfort or further security could be made available to us, and the decision on deferral is subject to the approval of our credit risk management department. In such case, the trading accounts of the relevant client will be suspended from trading, our credit department will closely monitor the positions of the collaterals held by such client, request for additional collateral of sufficient value or further security to cover the shortfall, realise the collateral or take debt collection action as last resort.

The following table summarises the range of actual margin ratios of our margin clients as at/for the periods indicated:

	31 December		**31 March**
	2014	**2015**	**2016**
Year-end margin ratio on an individual basis *(Note 1)* as at	0% – 111.7%	0% – 140.3%	0% – 186.6%
Day-end margin ratio on an individual basis *(Note 2)* for the year/period ended	0% – 117.2%	0% – 162.2%	0% – 211.3%
Average day-end margin ratio on an individual basis *(Note 3)* for the year/period ended	11.8%	28.8%	33.5%

Notes:

(1) Such ratio is calculated based on the highest and lowest margin ratio of individual margin account recorded as at the end date of the relevant year/period (without taking into consideration the accounts which had been forced liquidated and the inclusion of such accounts would lead to distorted result of margin ratio presented, the accounts with particular stock being suspended as of that date and the accounts with margin loan balance below HK$50,000 as of that date (the "**Excluded Accounts**")). As at 31 December 2014 and 2015 and 31 March 2016, the total balance of the margin loan receivables of the Excluded Accounts amounted to HK$1.7 million, HK$6.2 million and HK$4.4 million respectively, representing 0.4%, 0.3% and 0.2% of the total margin loan balance as at the same date.

(2) Such ratio is calculated based on the highest and lowest margin ratio of individual margin account recorded as at the day-end of each trading day of the relevant year/period (without taking into consideration the accounts which had been forced liquidated and the inclusion of such accounts would lead to distorted result of margin ratio presented, the accounts with particular stock being suspended as of that date and the accounts with margin loan balance below HK$50,000).

(3) Such ratio is calculated based on the day-end actual margin ratio of all margin accounts on an individual basis (without taking into consideration the accounts which had been forced liquidated and the inclusion of such accounts would lead to distorted result of margin ratio presented, the accounts with particular stock being suspended as of that date and the accounts with margin loan balance below HK$50,000) of all trading days during the relevant year/period divided by the number of such margin accounts.

During the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, there were instances where the day-end margin ratios of margin accounts exceeded 100%. We had issued margin call to these clients in accordance with our policy as mentioned above in this sub-section. The actual day-end margin ratio in respect of each margin account could vary greatly due to daily movements of the market value of the listed securities pledged as collaterals. As a result, we recorded higher upper ranges and average of the actual day-end margin ratios on an individual basis for the year ended 31 December 2015 and the three months ended 31 March 2016, which were primarily attributed to market volatility since the second half of 2015, leading to a larger degree of fluctuation of the day-end market value of the relevant listed securities pledged as collateral. As at 31 December 2014 and 2015 and 31 March 2016, we recorded shortfalls with respect to the margin loans made to certain clients (i.e. the amount of margin loan balance that exceeds the total value of collateral of the relevant client as at the relevant dates), which the aggregated margin shortfalls accounted for 1%, 2% and 6% of our total outstanding margin loans as at the relevant dates. For further information, see note 21 to the Accountants' Report set out in Appendix I to this document. Our management had assessed the aggregated value of the collateral provided by each of such clients as at the relevant dates and considered that no impairment was necessary taking into consideration the subsequent settlement of funds by such clients or provision of additional security. Our Group had exercised mandatory liquidations involving the value of the transactions of HK$31.6 million, HK$179.7 million and HK$89.6 million and did not incur any loss arising therefrom during the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, respectively. As our margin financing business continues to grow, see "Risk Factors – Our loans and financing business could be materially and adversely affected by the decline in market value of the collateral or client's default in repayment" for the associated risks relating to this business line. Please also see "Risk Management and Internal Control – Risk management relating to our loans and financing business" for further details of our risk management measures.

The table below sets forth the breakdown of values by collateral types for our margin financing business:

	As at 31 December				**As at 31 March**	
	2014		**2015**		**2016**	
	(HK$ in millions)	%	*(HK$ in millions)*	%	*(HK$ in millions)*	%
Securities of Hong Kong listed issuers	1,317.5	85.4	8,182.1	91.5	8,102.1	93.8
Securities of companies listed on overseas stock exchanges	226.1	14.6	700.1	7.8	537.5	6.2
Bonds	–	–	58.6	0.7	–	–
Total	**1,543.5**	**100.0**	**8,940.8**	**100.0**	**8,639.6**	**100.0**

The table below sets forth the breakdown of the nature of securities (excluding bonds) pledged by our clients as collaterals under our margin financing business:

	As at 31 December				As at 31 March	
	2014		2015		2016	
	(HK$ in millions)	%	*(HK$ in millions)*	%	*(HK$ in millions)*	%
Blue-chip *(Note)*	30.1	1.9	148.6	1.7	169.5	2.0
Securities of Hong Kong listed issuers (non blue – chip) with market capitalisation of (HK$):						
– More than 10 billion	201.4	13.1	2,878.2	32.4	3,447.9	39.8
– 6 billion to 10 billion	263.5	17.1	958.7	10.8	322.2	3.7
– 3 billion to 6 billion	373.3	24.2	1,744.8	19.6	1,748.8	20.2
– 1 billion to 3 billion	352.5	22.8	1,617.5	18.2	1,643.8	19.0
– Less than 1 billion	96.8	6.3	834.3	9.5	770.0	8.9
Securities of companies listed on overseas stock exchanges	226.1	14.6	700.1	7.9	537.5	6.2
Total	**1,543.5**	**100.0**	**8,882.2**	**100.0**	**8,639.6**	**100.0**

Note: Blue-chip securities mean listed securities that are constituent stocks of the Hang Seng Index.

The table below sets forth the breakdown of the balance of our outstanding margin loans by type of security under our margin financing business:

	As at 31 December				As at 31 March	
	2014		2015		2016	
	(HK$ in millions)	%	*(HK$ in millions)*	%	*(HK$ in millions)*	%
Secured margin loans						
Securities of Hong Kong listed issuers	365.0	88.7	2,178.7	90.0	2,222.8	89.5
Securities of companies listed on overseas stock exchanges	46.7	11.3	223.6	9.2	246.4	9.9
Bonds	–	–	14.8	0.6	–	–
Margin loans arisen from liquidated accounts *(Note)*	–	–	4.2	0.2	15.4	0.6
Total	**411.7**	**100.0**	**2,421.3**	**100.0**	**2,484.6**	**100.0**

Note: Margin loans arisen from liquidated accounts refer to the outstanding amount of margin loan shortfall (i.e. the amount not covered by the value of pledged securities being liquidated) under those accounts being mandatorily liquidated after our issuance of margin call in accordance with our client agreement. Our Directors has assessed such margin shortfalls of each individual client and considered that no impairment allowance is necessary taking into consideration of subsequent settlement or provision of additional security.

Same as our margin financing business, our money lending business has credit assessment and collateral requirements on clients applying for loans from us. We accept securities listed on the Stock Exchange and other marketable assets such as bonds as collateral. We closely monitor the value of the collateral to minimise our credit exposure. For secured loans, based on our policy, we set the loan-to-value ratio for a single money lending client from 10% to 70% for Hong Kong listed securities and up to 90% for bonds at the time of making the advance. The loan-to-value ratio is the aggregated outstanding amount of loan to the aggregated market value of the collateral. Criteria assessed when setting the loan-to-value ratio includes market capitalisation, type, liquidity and volatility of the securities provided and the financial position of the relevant listed issuers. We may allow a higher loan-to-value ratio for money lending client when we make the advance or extend the loan where we are satisfied that the total value of all collateral and/or security already held by our Group together with any additional collateral and/or security provided by our client are sufficient to cover the total loan balance of the same client, provided that in such case, the approval by senior management (including our risk management committee) shall be required. Based on our assessment, during the term of the loan, we may require our client to provide additional collateral or further security in the form acceptable to us, failing which we will choose to enforce our rights to demand for repayment and proceed to collect the debt or dispose of the collateral or take appropriate legal action against the borrower to recover our loss where necessary. For unsecured loan, we will conduct background check and credit assessment on the client when we grant the loan and we agree to grant unsecured loan only where we are satisfied with the recoverability of the loan by reference to our evaluation on the financial strength and credibility of such client as well as the amount of loan involved. See "Risk Management and Internal Control – Risk management relating to our loans and financing business" for further details.

The following table summarises the range of actual loan-to-value ratios of our money lending clients as at/for the periods indicated:

	31 December		31 March
	2014	2015	2016
Year-end loan-to-value ratio on an individual basis *(Note 1)* as at	8.7% – 50.2%	8.4% – 120.4%	8.5% – 202.2%
Day-end loan-to-value ratio on an individual basis *(Note 2)* for the year/period ended	8.3% – 213.9%	4.8% – 360.9%	8.3% – 212.5%
Average day-end loan-to-value ratio on an individual basis *(Note 3)* for the year/period ended	39.4%	43.9%	88.9%

Notes:

(1) Such ratio is calculated based on the highest and lowest loan-to-value ratios of individual money lending client recorded as at the end date of the relevant year/period but without taking into consideration the unsecured loan and loan secured by guarantee.

(2) Such ratio is calculated based on the highest and lowest loan-to-value ratios of individual money lending client recorded as at the day-end of each trading date of the relevant year/period but without taking into consideration the unsecured loan and loan secured by guarantee.

(3) Such ratio is calculated based on the day-end actual loan-to-value ratio of all money lending loans on an individual basis (without taking into consideration the unsecured loan and loan secured by guarantee) of all trading days during the relevant year/period divided by the number of such money lending loans.

During the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, on an individual basis, we allowed the outstanding loan of certain individual clients exceeding the value of their collateral separately provided for money lending loans for the reason that the relevant clients were also our margin financing clients, and that we approved the loans to such clients after taking into account that the aggregated value of all collateral and security provided by them (comprising collateral and security provided for their money lending loans and the collateral provided for margin loans which our Group was contractually entitled to set off against any liability arising from the same clients for money lending loans pursuant to the relevant loan agreement) remained sufficient to cover their respective total loan receivables. For further information, see note 18 to the Accountants' Report set out in Appendix I to this document. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material default on repayment of loans by our clients nor encounter any difficulty in collecting the debt from our clients under our money lending business.

The table below sets forth the breakdown of values by types of collateral received for our money lending business:

	As at 31 December				As at 31 March	
	2014		2015		2016	
	(HK$ in millions)	*%*	*(HK$ in millions)*	*%*	*(HK$ in millions)*	*%*
Securities of Hong Kong listed issuers	720.0	100	1,918.3	97.7	1,849.8	98.3
Bonds	–	–	28.9	1.5	28.8	1.5
Cash deposit	–	–	16.4	0.8	2.9	0.2
Total	**720.0**	**100.0**	**1,963.6**	**100.0**	**1,881.5**	**100.0**

The table below sets forth the breakdown of the nature of listed securities pledged by our clients as collaterals under our money lending business:

	As at 31 December				As at 31 March	
	2014		2015		2016	
	(HK$ in millions)	*%*	*(HK$ in millions)*	*%*	*(HK$ in millions)*	*%*
Securities of Hong Kong listed issuers with market capitalisation of (HK$)						
More than 10 billion	36.6	5.1	1,782.3	92.9	1,752.2	94.7
6 billion to 10 billion	247.8	34.4	1.6	0.1	4.0	0.2
3 billion to 6 billion	352.9	49.0	70.8	3.7	50.3	2.7
1 billion to 3 billion	70.9	9.9	52.2	2.7	4.1	0.2
Less than 1 billion	11.8	1.6	11.4	0.6	39.2	2.1
Total	**720.0**	**100**	**1,918.3**	**100**	**1,849.8**	**100**

The table below sets forth the breakdown of the balance of our outstanding loans receivable by type of security under our money lending business:

	As at 31 December				As at 31 March	
	2014		2015		2016	
	(HK$ in millions)	%	*(HK$ in millions)*	%	*(HK$ in millions)*	%
Loans secured by						
– Securities of Hong Kong listed issuers	157.5	100.0	242.7	86.0	236.7	89.5
– Bonds	–	–	21.5	7.6	21.4	8.1
– Cash	–	–	15.1	5.3	1.5	0.6
Loan secured by third party guarantee	–	–	3.0	1.1	3.0	1.1
Unsecured loans	–	–	–	–	2.0	0.8
Total	**157.5**	**100.0**	**282.3**	**100.0**	**264.6**	**100.0**

Interest income

We charge interest on the margin financing and the loans provided to clients. For the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, the interest rate we charged on margin financing was around Hong Kong dollar Prime Rate plus 3% per annum, and the interest rate we charged on money lending ranged from 5.25% to 8.25% per annum. The average interest rate charged by us for margin financing was 4.7% per annum, 6.8% per annum and 7.4% per annum for the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, respectively, and the average interest rate for money lending was 6.3% per annum, 7.2% per annum and 7.5% per annum for the same periods, respectively. We determine and fix the interest rates by reference to the prevailing market interest rate, risk profile, size and quality of the collateral, creditworthiness, settlement history, trading volume and years of business relationship of our client, and such rates are subject to change from time to time in response to changing market conditions and our business strategies.

Our loans and financing segment is integral to our business operations. We recorded an impressive growth in revenue from this segment during the Track Record Period. The following table sets forth the breakdown of segment revenue from our loans and financing business for the periods indicated:

	For the year ended 31 December				For the three months ended 31 March	
	2014		2015		2016	
	(HK$ in millions)	%	*(HK$ in millions)*	%	*(HK$ in millions)*	%
Interest income						
– margin financing	8.1	80.7	107.1	84.3	47.8	90.3
– money lending	1.9	19.3	19.9	15.7	5.1	9.7
Total:	**10.0**	**100**	**127.0**	**100**	**52.9**	**100**

Loan management

Loan application

Potential clients of our loans and financing services shall complete our "know-your-client" procedure, which consists of obtaining and reviewing various identification documents. Each applicant shall sign the client agreement and loan application form with us before we extend any loan to it/him.

Credit assessment

We shall complete credit assessment for applicants for our loans and financing services. In assessing their creditworthiness, our primary focus is on the collateral and security (if any) offered as well as the applicant's background. We evaluate collateral according to various matrices, such as their liquidity, market value, volatility and type. In addition to the collateral, our credit assessment department takes into account the client's occupation, financial condition, reputation, investment purpose, securities concentration, trading and settlement history with us, asset proof and credit history, which facilitate our assessment on the client's repayment ability. Where necessary, we conduct credit search with external credit check agencies to obtain background information and credit history of our client.

Loan approval

(a) Margin financing

Our credit risk management department reviews and evaluates the credit assessment results together with the documents offered in support of the loan application. Based on our credit assessment and upon application by our client, we set the appropriate credit line for each client. A basic credit line of HK$200,000 will be made available for a new client at the discretion of our credit risk management department. Our risk management committee approves and, where appropriate, revises the credit line extended to each client upon request and completion of our internal assessment procedures.

(b) Money lending

The loan approval process for our money lending service is similar to that of our margin financing as detailed above. Applicant for money lending service shall sign the loan agreement with us and issue drawdown notice within the term of the loan agreement.

Post-loan monitoring

(a) Margin financing

Our securities back office system generates a daily margin report, which is reviewed by our credit risk management department and the senior management of our Company. Our credit risk management department will conduct more frequent reviews on the securities portfolio provided by our clients as collateral if the market value of such collateral is experiencing material fluctuation. In the event of any adverse movement in the value of the collateral such that the ratio of the outstanding margin loan to the value of the collateral of the relevant client has reached the approved ratio or the value of the collateral provided by the relevant client is considered to be insufficient to cover our exposure with respect to the loan granted to that client, we will issue margin calls via phone call, e-mail, SMS or other means as we consider appropriate and request such client to fulfil the margin call either by depositing additional funds, closing out the securities, pledging additional securities to top up the market value of pledged securities and/or providing further security to cover any shortfall, within a prescribed period. A client subject to our margin call is not allowed to execute further securities purchases without the approval of at least two members of our risk management committee, unless such client has fulfilled our margin call within our prescribed time limit, either within the same day or by 3:30 p.m. on the next trading day. In case where our client fails to do so or the ratio of the outstanding loan reaches or exceeds 140% of the value of the collateral or 85% of the total value of the securities held in the cash and margin accounts, unless we agree to defer the mandatory liquidation process, we may exercise our rights to mandatory liquidate the collateral and take debt collection action for any shortfall in accordance with the agreement signed with our client and our policies as our last resort. Our client agreement stipulates that in circumstances where we are entitled under our client agreement to carry out the sale or disposal of the collateral, our client agrees that we have the right and power to sell or dispose of any collateral held by us at our absolute discretion.

(b) Money lending

During the monitoring stage, our credit risk management department monitors the repayment status of each loan on a daily basis and is required to report to our risk management committee. For secured loan, during the loan monitoring process, where we notice that the value of the collateral is considered to be insufficient to cover our risk exposure or that the actual loan-to-value ratio with respect to any loan advanced has reached or exceeded our accepted ratio, we may require the borrower to deposit additional collateral and/or security, partially repay the outstanding loan or realise the value of the collateral in order to bring the loan-to-value ratio back to our acceptable level. For unsecured loan, our credit department should conduct annual review on each loan which remains outstanding and if we notice that there is a material deterioration in our client's financial position, we may require repayment from our client after reporting to our risk management committee. In the event that our client fails to respond to our request as mentioned above, we may appoint an external debt collection service provider or take appropriate legal actions for debts which have been due for a long period as our last resort.

Investment banking

We provide investment banking services, including fund raising services (such as equity and debt securities underwriting), listing sponsorship services and financial advisory services to institutional clients. For the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, we had provided investment-banking services to 11, 21 and 8 clients, respectively.

For the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, segment revenue from our investment banking business amounted to HK$20.1 million, HK$25.6 million and HK$1.4 million, respectively, representing 16.8%, 7.0% and 1.8% of our total revenue during the corresponding periods, respectively.

Our investment banking unit had three Responsible Officers for Type 6 (advising on corporate finance) regulated activities. Out of the three Responsible Officers, two were sponsor principals and two were Responsible Officers for Type 1 (dealing in securities) regulated activities under the SFO, as at 31 March 2016. We charge commission on offering fund raising services, sponsor fees and service fees from the provision of listing sponsorship services and financial advisory services, respectively. The following table sets forth the segment revenue from our investment banking services for the periods indicated:

	Year ended 31 December				**Three months ended**	
	2014		**2015**		**31 March 2016**	
	(HK$ in millions)	%	*(HK$ in millions)*	%	*(HK$ in millions)*	%
– Commission on offering fund raising services	18.1	90.0	21.0	82.0	0.4	29.6
– Sponsor fee income	–	–	2.4	9.4	1.0	70.4
– Financial advisory fee income	2.0	10.0	2.2	8.6	–	–
Total	**20.1**	**100**	**25.6**	**100**	**1.4**	**100**

Fund raising services

We underwrite IPOs and secondary offerings, rights issues and private placements. We receive underwriting commissions based on the size and type of fund raising, complexity of the transaction as well as market conditions. According to Frost & Sullivan, we were ranked 14th out of all PRC-funded underwriters in Hong Kong and 27th amongst all underwriters in Hong Kong in terms of underwriting amount in 2015.

The following table sets forth the details of some of the fund raising transactions in which we acted as a lead or co-lead underwriter or placing agent during the Track Record Period:

Year	**Nature of offering**	**Issuer**	**Value of securities underwritten/placed** *(HK$ in million)*	**Industry**	**Our role**
IPOs					
2016	Underwriting	Virscend Education Company Limited	606.3	Education	Joint bookrunner & joint lead manager
2015	Underwriting	China Jicheng Holdings Limited	6.0	Umbrella Manufacturing	Co-lead manager

Year	Nature of offering	Issuer	Value of securities underwritten/placed *(HK$ in million)*	Industry	Our role
2015	Underwriting	GF Securities Co., Ltd.	1,394.7	Securities	Joint bookrunner & joint lead manager
2015	Underwriting	HTSC	329.8	Securities	Joint bookrunner and joint lead manager
2015	Underwriting	LUZHENG FUTURES Company Limited	2.0	Futures	Co-lead manager
2015	Underwriting	Clear Lift Holdings Limited	116.6	Construction Machinery	Joint bookrunner
2014	Underwriting	Fujian Nuoqi Co., Ltd.	3.2	Clothing	Co-manager
2014	Underwriting	Earthasia International Holdings Limited	1.2	Building & renovation	Co-manager
2014	Underwriting	Jinmao (China) Hotel Investments and Management Limited	0.1	Hotels & Resort	Co-manager
2014	Underwriting	Broad Greenstate International Company Limited	4.4	Gardening	Joint bookrunner & joint lead manager
2014	Underwriting	Jiashili Group Limited	7.4	Food Production	Joint bookrunner & joint lead manager
2014	Underwriting	Hin Sang Group (International) Holdings Co. Ltd	192.0	Health & Care	Joint bookrunner & joint lead manager
2014	Underwriting	Q Technology (Group) Company Limited	3.9	Information Technology Equipment	Placing underwriter
2014	Placing	Huadian Fuxin Energy Corporation Limited	Not applicable	Energy supply	Co-lead manager
2014	Placing	China Energine International (Holdings) Limited	300.0	Energy equipment	Placing agent

Notes:

(1) There is no fixed underwriting commitment as stipulated in the relevant underwriting agreement and CISI Capital received a fixed fee on that particular transaction.

(2) The years referred to the above refer to the years in which the fund raising transactions we were engaged as underwriter or placing agent (as the case may be) were completed.

Listing sponsorship

We provide listing sponsorship services for corporate clients who wish to apply for a listing on the Stock Exchange. During the Track Record Period, we were engaged for five proposed listing applications in which we acted in the capacity as the sponsor for the potential listing applicant. We received sponsorship fees of HK$2.4 million and HK$1.0 million for the year ended 31 December 2015 and the three months ended 31 March 2016, respectively. After the Track Record Period and up to the Latest Practicable Date, we were engaged for one additional proposed listing application as the sponsor and had submitted two listing applications to the Stock Exchange. Of these two submitted listing applications, one relates to the listing of our Company, and another one relates to the proposed listing of Da Sen Holdings Group Limited, the listing application of which was submitted in April 2016 and is currently under review by the Stock Exchange and the SFC. During the Track Record Period up to the Latest Practicable Date, we had yet to complete any transaction in which we provided listing sponsorship service.

Financial advisory

We provide financial advisory services in various transactions for our clients, including, among others, advice for mergers and acquisitions transactions and independent financial advice for listed companies. We charge advisory fees based on the type and size of the transactions, duration of the engagement, complexity of the transaction and the expected resources required.

We have completed 11 transactions as a financial adviser, independent financial adviser or compliance adviser during the Track Record Period. For the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, our fee income from financial advisory services was HK$2.0 million, HK$2.2 million and nil, respectively.

Asset management

We commenced our asset management business in 2012. Our asset management business includes asset management services and investment advisory. As at 31 March 2016, we had 35 clients under our asset management schemes with a total AUM of HK$1,650.6 million. For the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, we received asset management fee income of HK$808,536, HK$5.5 million and HK$1.0 million, respectively.

Our asset management services primarily include:

- *Collective investment scheme*: we manage client assets for a group of clients while keeping client assets in designated accounts pursuant to applicable laws and in accordance with collective asset management contracts;

- *Discretionary account management*: we manage assets for a single client pursuant to a discretionary mandate between the client and us through a discretionary account; and

- *Investment advisory*: we provide investment advice mainly to institutional clients.

Collective investment scheme

We launched our first collective investment scheme in 2012. As at 31 March 2016, we had three outstanding collective asset management schemes, namely IS China Strategy Balanced Fund, CIS Dynamic Growth Fund SP and CIS Excellent Select Fund SP, established in 2013, 2015 and 2015, respectively. The aggregate AUM of all three collective asset management schemes was HK$300.2 million as at 31 March 2016. Our collective asset management schemes do not have a minimum duration. The assets under management were mainly stocks or bonds. The minimum subscription threshold is HK$1 million. The annual management fees amount to approximately 1.5% of the NAV, which might be waived or reduced by us at our discretion. We may also charge performance fees that amount up to 20% of the return on our products.

Discretionary account management

We launched our discretionary account management service in 2013. As at 31 March 2016, we had 11 outstanding discretionary accounts, most of which had a term of three year or more and some of which were invested in RQFII products. We generally charge annual management fees up to 1.5% of the AUM. We may also charge performance fees that amount up to 30% of the return on our products. As at 31 March 2016, the total amount of AUM of our discretionary accounts was HK$1,350.4 million.

As at 31 March 2016, we had two investment managers who possessed more than 10 years of experience in the financial industry. We plan to recruit talented investment management professionals as our asset management business expands.

Investment advisory

We provide investment advisory service primarily for our institutional clients, which are mainly asset management companies. We charge investment advisory fee based on the nature of the advice we provide and mutual negotiation. We received investment advisory fees of HK$369,000, HK$1.5 million and HK$462,342 for the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, respectively.

Proprietary trading

During the Track Record Period, we engaged in the proprietary trading of debt securities, equity securities and other financial products. For the years ended 31 December 2014 and 2015, we mainly invested in debt securities traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange. These debt securities all received ratings of AA, AA+ or above by local rating agencies and their maturity period ranged from five to seven years (with bond duration generally of five years or less), and a majority of such investments had a maturity period of five years. The average coupon rate of these bonds was 5.67% per annum. For the years ended 31 December 2014 and 2015, we realised a net gain on financial assets at FVTPL (including interest income and dividend income) of HK$43.4 million and HK$29.4 million, respectively, of which HK$43.2 million and HK$28.4 million were attributable to debt securities, respectively, and HK$0.2 million and HK$1.0 million were attributable to equity securities, respectively. Our average return from proprietary trading for the years ended 31 December 2014 and 2015 were 6.9% and 4.4%, respectively. For the three months ended 31 March 2016, we did not hold any investment under this business segment and hence, no income was recorded. We had closed all our long positions in our proprietary investment in November 2015 in view of the fluctuations and uncertainties associated with RMB exchange rate and RMB-denominated products, and also due to our management's decision to allocate our funds to other business segments with funding needs, such as our loans and financing segment.

The following table sets forth the breakdown of the net gain from our proprietary trading business (including interest income and dividend income) for the periods indicated:

	Year ended 31 December	
	2014	**2015**
	(HK$ in millions)	
Interest income from financial assets at FVTPL	29.7	12.9
Dividend income from financial assets at FVTPL	–	2.1
Net realised gain on financial assets at FVTPL	6.3	21.8
Net unrealised gain (reversal of prior year unrealised gain) on financial assets at FVTPL	7.4	(7.4)
	43.4	29.4

Note: For the three months ended 31 March 2016, we did not hold any investment under our proprietary trading business and hence, no income and net gain were recorded during the period.

Set forth below are certain operating data relating to our proprietary trading business for the periods indicated:

	As at 31 December				As at 31 March	
	2014		**2015**		**2016**	
	(HK$ in millions)	*(%)*	*(HK$ in millions)*	*(%)*	*(HK$ in millions)*	*(%)*
Investment position by asset type at FVTPL						
Debt securities	577.2	99.6	–	–	–	–
Equity securities	2.4	0.4	–	–	–	–
Total	579.6	100	–	–	–	–

Note: Since we had closed all our long positions in our proprietary investment in November 2015 and did not hold investment under proprietary trading business during the three months ended 31 March 2016, as at 31 December 2015 and 31 March 2016, the position of investments held was reported as nil.

	For the year ended 31 December 2014	2015	For the three months ended 31 March 2016
Average investment return (%)			
Debt securities (%)	6.9	4.3	–
Equity securities (%)	3.9	17.5	–
Total	6.9	4.4	–

Note: Average investment return is calculated as dividing the net gain from proprietary trading (including interest income and dividend income) from the investments held by us at FVTPL by the average investment cost for the relevant year/period. Since we had closed all our long positions in our proprietary investment in November 2015 and did not hold investment under proprietary trading business during the three months ended 31 March 2016, for the three months ended 31 March 2016, the average investment return was reported as nil.

	As at 31 December 2014 *(RMB in million)*	%	2015 *(RMB in million)*	%	As at 31 March 2016 *(RMB in million)*	%
Bond type by issuer ratings (by local rating agencies)						
AA	429.3	92.6	–	–	–	–
AA+	34.2	7.4	–	–	–	–
Total	463.5	100	–	–	–	–

Notes:

(1) Since we had closed all our long positions in our proprietary investment in November 2015 and did not hold investment under proprietary trading business during the three months ended 31 March 2016, as at 31 December 2015 and 31 March 2016, the position of bonds held was reported as nil.

(2) The above figures are calculated based on the exchange rate of HK$1:RMB0.7997.

Investment strategies

Our investment strategy is to actively capture non-high risk opportunities to increase returns on our investments while ensuring sufficiency of working capital and protection of our principal invested. We generally aim to invest into bonds and stocks where we have an in-depth understanding of the relevant issuer and believe there are opportunities for value investing. Our strategies are to mainly invest in debt securities to increase returns while ensuring principal protection. For equity investments, we will seek to adopt a "value investing" strategy where we aim to identify companies with good growth prospects and invest in stock which are relatively undervalued in the market, after conducting in-depth research and detailed analysis. As we continue to expand our proprietary trading business, our investment strategies evolve to accommodate our business need. The key aspects of our investment strategies are summarised below:

General selection criteria of debt securities	• We invest in bonds normally with investment grade ratings (i.e. bonds with BBB-rating or above by international rating agencies) • We may also invest in non-investment grade bonds with higher return potentials and issued by companies which we have in-depth understanding after applying strict credit selection process • Duration of bond portfolio is generally around five years, with flexibility based on the investment decision committee's assessment by reference to the market development, macro-economic conditions, expected investment return and diversity in bond duration to optimise investment return
Asset allocation strategy	• Bond portfolio shall comprise stable-type bonds which we intend to hold in the longer term and trading-type bonds which we intend to actively trade in the shorter term • Stable-type bonds are investment-grade bonds with BBB+ rating or above and shall comprise at least 60% of our total investment portfolio. No single stable-type bond investment shall comprise over 15% of our total investment portfolio • Trading-type bonds are investment-grade, high-yield and convertible bonds which we intend to make gains from active trading. For trading-type investment-grade bonds, no single bond shall comprise over 10% of our total investment portfolio. For trading-type high-yield and convertible bonds, no single bond shall comprise over 5% of our total investment portfolio • Reasonable diversity in overall debt securities portfolio in terms of country of domicile and the industry in which the issuer operates

Debt securities investment strategies

- Duration deviation – based on our projections of future interest rate level, duration and investment variety of portfolio will be reasonably allocated and the impact of changes in market interest rates on the bond portfolio will be constrained to a certain extent. If interest rate is expected to enter an upward cycle, the term of the bond portfolio will be shortened or allocation of floating-rate bonds will be increased for the purpose of lowering interest rate risk. If interest rate is expected to enter a downward cycle, the term of the bond portfolio will be increased or allocation of floating-rate bonds will be decreased for the purpose of lowering interest rate risk
- Yield curve allocation – based on the remaining term of the portfolio and our prediction of changes in the shape of the yield curve, long-, medium- and short-term bonds will be allocated in order to earn profit from changes in the relative prices of long-, medium- and short-term bonds
- Type selection – when making allocation amongst fixed income securities, we will consider liquidity management requirements for determining different allocations amongst different types of fixed income securities. Specifically, credit bonds have higher yield but lower liquidity, while government bonds have lower yield but higher liquidity. Therefore, in determining the overall bond allocation, we will consider the profitability of the credit bonds and the liquidity of government bonds, in order to maintain a balanced and comprehensive allocation
- Credit bond (i.e. bonds other than treasury bonds) – we will conduct a comprehensive analysis of macro-economy, interest rate market, industry fundamentals and corporate fundamentals to determine the credit premium of credit bonds relative to interest rate products, and adjust the investment percentage of credit bonds based on market sentiment dynamics, in order to obtain excess returns from the credit bonds. Specifically, under the premise of risk control, the selection of individual credit bond will be focused on the actual creditworthiness rather than credit rating of an individual bond. Besides, anticipated upgrading of credit rating, special advantageous terms, relatively higher risk-adjusted rate of return and market yield curve will also be considered in bond selection

Risk management and tolerance indicators	• We have control functions in place which are performed jointly by our investment team, operation team, financing team, with reporting lines to our investment management committee and our deputy chief executive officer • Approval from our investment decision committee is required for any investments exceeding our pre-set trading limits or material adjustments in asset allocation • Senior management reviews investment positions and valuation reports on a daily, weekly and monthly basis • For individual bonds, we monitor daily price movement. For example, any 5% decrease from initial investment cost will be put on our monitor list, any 10% decrease from initial investment cost will trigger cut-loss. For high-yield bond, we adopt stricter cut loss mechanism, any 5% decrease from initial investment cost will triggers cut-loss • For portfolio management, our stop-loss mechanism would be triggered if the weekly accumulated loss exceeds 1% of the authorised investment capital, or quarterly accumulated loss exceeds 1.5% of the authorised investment capital and we will liquidate our whole portfolio once our stop-loss mechanism is triggered • For trading-type bonds, we monitor its sensitivity to interest rates movements, use a quantitative indicator to measure bond price sensitivity to interest rate movement and use bond futures to hedge interest rates risks. Hedge level is between 50% and 100% of interest rate risk of trading-type bonds • For stress management, we conduct regular portfolio valuation test and perform *ad hoc* valuation during volatile market movements to generate real-time stress report for assessment by our senior management • For further details, see "Risk management and internal control – Risk management relating to our proprietary trading business"

Our investment decision committee is responsible for formulating investment policies and guidelines, making major investment decisions and setting authorisation limits on investment activities. Our fixed income department is responsible for the operational aspects of our proprietary trading in accordance with the limits, strategies and guidelines set by our investment decision committee and shall report regularly to our investment decision committee. Any proposed trades which exceed the authorised limit must first be approved by our investment decision committee. We may decide to hold 100% of our proprietary assets in cash over a period of time should our investment decision committee deem such strategy to be prudent. Subject to market conditions and our risk assessment, we strive to seek suitable investment opportunity with an aim to achieving stable return on our cash balance while managing risk by implementing our trading and risk management strategies. We are in the process of adopting more comprehensive risk management measures such as establishing quantitative limits, warning levels or other measures based on VaR (value at risk) data. To manage our risk exposure, we have in place a stop-loss mechanism for investment product. For example, the mechanism would be triggered if the weekly accumulated loss exceeds 1% of the authorised investment capital, or quarterly accumulated loss exceeds 1.5% of the authorised investment capital. We also have adopted other risk control measures such as pre-set trading limits and concentration ratio.

We closely monitor our investment portfolio in accordance with various guidelines and risk tolerance indicators set by our investment decision committee. For details of our risk management in relation to this business line, see "Risk Management and Internal Control – Monitoring and management of major risks – Risk management relating to our proprietary trading business" in this section.

Subsequent to the Track Record Period, in light of the gradual stabilisation of the global financial market in the second half of 2016, and leveraging on our increased capital base as a result of a series of capital increase, we have been actively seeking suitable investment opportunities and had acquired and held debt securities with total market value of US$304.6 million as at 31 August 2016. The average investment return of the debt securities held by us since we held the relevant investments up to 31 August 2016 was 4.3%. Set forth below are the breakdown of the debt securities held by us under our proprietary trading business as at 31 August 2016:

	As at 31 August 2016	
	(US$ in million) *(unaudited)*	%
Bond type by issuer ratings (by international rating agencies)		
AAA to A-	177.6	58.3
BBB+ to BBB-	55.4	18.2
BB+ and below	71.6	23.5
Total	304.6	100.0

	As at 31 August 2016	
	(US$ in million) *(unaudited)*	%
Bond type by nature of the issuer		
Government	43.7	14.3
Financial institutions	165.2	54.3
Corporations	95.7	31.4
Total	304.6	100.0

	As at 31 August 2016	
	(US$ in million) *(unaudited)*	%
Bond type by geographical location		
China	176.1	57.8
Asia (excluding China)	63.0	20.7
Europe	54.7	17.9
America	10.8	3.5
Total	304.6	100.0

In addition to debt securities, we also held bond futures with a total face value of US$12.5 million as at 31 August 2016.

Wealth management business

We commenced wealth management business in December 2015. Under this business, we recommend and offer insurance, pensions and other wealth management products developed by third parties to our clients based on their financial sophistication and risk-return profile. The wealth management products offered by us currently include life and general insurance policies and pension investment schemes managed by third party institutions such as insurance companies. We have entered into agreements with 14 insurance providers and five pension investment scheme providers to offer their products to potential wealth management clients. We normally charge our clients a commission based on a fixed percentage of the premium contribution for the insurance policy or the underlying value and new contribution amounts for the investment products (as the case may be) which is agreed among us, our client and the third party provider of the product.

Examples of the key wealth management products we offer are:

- ***Insurance***: life insurance, general insurance, and unit-linked investment policies.

- ***Pension***: MPF and ORSO schemes.

As at 31 March 2016, we had 45 wealth management clients who were mainly individual clients. Going forward, we aim to develop and expand our corporate and institutional client base. Since the commencement of this business line and up to 31 December 2015, the revenue derived from wealth management business was minimal. As at 31 March 2016, we had a sales and marketing team consisting of four in-house client managers and four self-employed account executives, all of whom are licensed with the Professional Insurance Brokers Association and five of whom are licensed with the Mandatory Provident Fund Schemes Authority. Similar to our brokerage account executives, our wealth management account executives are not considered as our employees and are entitled to share with us a pre-determined percentage of commission from successful sales to our clients. We received HK$0.6 million of insurance brokerage commission income during the three months ended 31 March 2016 for our wealth management business.

NOTIFIABLE TRANSACTIONS

Under Rule 19.04(1)(e)(iii) of the GEM Listing Rules, margin financing activities carried out by our subsidiary CISI Brokerage are considered to be in the "ordinary and usual course of business" of our Group and are not subject to the relevant requirements under Chapter 19 of the GEM Listing Rules. Whilst providing financial assistance to our clients is in our ordinary and usual course of business as a money lender, under Rule 19.04(8) of the GEM Listing Rules, the term "ordinary and usual course of business", in the context of financial assistance, only applies to a banking company, and not to a money lending company. In this regard, upon Listing, the financial assistance provided by us to our money lending clients may (i) constitute notifiable transactions under Chapter 19 of the GEM Listing Rules which will be subject to the relevant notification, announcement and shareholders' approval requirements; and (ii) trigger disclosure requirements under Rule 17.15 of the GEM Listing Rules. As a result, our Group has put in place procedures to ensure that the requirements of the GEM Listing Rules, including those relating to Chapters 17, 19 and 20 of the GEM Listing Rules are complied with. Under our policy, before we enter into any money lending transaction, the relevant transaction information including the borrower's identity and the loan amount will be furnished to the finance department and compliance department for checking and size test calculation to determine if any issuer's obligation under the GEM Listing Rules will be triggered. Where the prospective lending will give rise to any reporting or announcement obligation or will be subject to shareholders' approval, the transaction will be reported to the Board for approval. We will seek advice from external legal advisers where necessary for ensuring full compliance with the GEM Listing Rules.

In the event that the aggregate amount of the principal and interest charged thereon in respect of a loan to be granted by our Group results in one or more of the percentage ratios under Chapter 19 of the GEM Listing Rules exceeding 25.0% but falling short of 100.0%, such a loan will constitute a major transaction under the GEM Listing Rules and will be subject to announcement and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

MAJOR CLIENTS

We serve a diverse base of clients, including individual, corporate and institutional entities. Our major clients are mainly high net worth individuals and corporate clients. Our clients are mainly individual investors and based in the PRC. These clients are recruited from other securities and brokerage firms in Hong Kong by our account executives or our in-house client managers through their established network. There are also clients who opened trading accounts with us in Hong Kong due to the brand recognition associated with Industrial Securities in the PRC. As at 31 March 2016, we had 24 client managers and 53 account executives to serve our clients under our securities and futures and options brokerage businesses, and four client managers and four account executives to serve our clients under wealth management business. For further details, see "Employees and account executives" in this section.

For the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, our top five clients comprised brokerage clients and investment banking clients. For the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, our largest client accounted for 8.3%, 6.7% and 9.8% of our total revenue, respectively. During the same period, revenue attributable to our top five clients in aggregate amounted to 25.3%, 21.1% and 19.6%, respectively, of our total revenue. Our top five clients had less than one year to three years of business relationship with us. During the Track Record Period, none of our Directors or their respective close associates or the existing Shareholders who owned more than 5% of our Company's issued share capital had an interest in our top five clients. All of our top five clients for the two years ended 31 December 2014 and 2015 and the three months ended 31 March 2016 were Independent Third Parties.

During the Track Record Period, we received no complaints from our clients which had a material impact on our business operation.

SUPPLIERS

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

COMPETITION

The financial service industry in Hong Kong is highly competitive, featured by a large number of participants in the market. According to Frost & Sullivan, local companies represented 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 mainland PRC-funded securities companies in the market, which accounted for 12.0% of the total number of market players. Among all these players, international investment banks and large-scale mainland PRC-funded players had occupied comparatively large market share in terms of number of transactions and turnover. For details of the competitive landscape of the financial service industry in Hong Kong and the market drivers, see "Industry Overview" in this document.

To maintain our market position, we have to compete effectively over competitors in terms of capital resources, pricing, client base, service coverage and quality, talents and brand recognition. Our competitors may have stronger capital resources, greater brand recognition in the market, more human resources, a wider range of services and longer operating histories than that of us. Apart from large multinational financial institutions, we also face competition from newly established local medium and small-sized financial services firms which offer similar range of services. Despite keen competition, we believe that our core competitive advantages, sound business planning and the contributions of our senior management as more particularly set out in "Business – Competitive strengths" and "Business – Business strategies" have allowed us to rapidly stand out as a reputable full-service securities group based in Hong Kong, and to capture further market share as we grow our business.

INFORMATION TECHNOLOGY

To capture business opportunity from online trading which becomes increasingly popular as well as to enhance our client's trading experience with us, leveraging on the information technology and software program developed by and acquired from third party vendors, we are able to offer multi-product online electronic trading services, through which clients could easily perform transactions over the web through computers and mobile phones, gain access to our products which cover Hong Kong stocks, Shanghai-Hong Kong Stock Connect, B shares, US stocks, Canadian stocks, local futures and global futures, etc. To cope with the increasing use of internet as our trading platform, we have established a system of risk management tools to identify and monitor risks, precisely to respond to risk in an efficient manner. In terms of our information technology infrastructure, we use VMware which provides rapid upgrading of the system, the use of multi-layer network architecture, Web application firewall, digital security authentication, intrusion prevention systems, etc., to provide comprehensive security for corporate networks. For the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, our expenses incurred on information system and its maintenance amounted to HK$4.4 million, HK$17.9 million and HK$3.7 million, respectively.

During the Track Record Period, we did not experience any material interruption in our operations due to system failure or breakdown nor did we experience any internet security issue which had a material impact on us.

INTELLECTUAL PROPERTY RIGHTS AND PROPRIETARY INFORMATION

As at the Latest Practicable Date, we were the registered owner of the domain name **xyzq.com.hk** which was being used as our websites and we were licensed by Industrial Securities (Hong Kong) to use the trademark registered under its name. We also have been granted licences to use various trademarks registered under the name of Industrial Securities (Hong Kong) and Industrial Securities. For further details, see "Connected Transactions" and "Statutory and General Information – B. Further information about the business – 2. Intellectual property rights".

During the Track Record Period and up to the Latest Practicable Date, we had not been involved in any proceedings in respect of, and we had not received notice of, any claims relating to infringement of any intellectual property right, in which we may be involved whether as a claimant or as a defendant.

EMPLOYEES AND ACCOUNT EXECUTIVES

We believe that our long-term growth depends on the knowledge, experience and continuing commitment of our employees. Our human resources department is in charge of the employee recruitment, training, compensation and performance appraisal. As of 31 March 2016 we had 129 employees (excluding account executives). The following table sets forth our total number of employees (excluding account executives) by business functions as of 31 March 2016:

Business functions	**Number of employees**
Asset management	6
Brokerage	44
CEO Office	2
Compliance	5
Credit risk management	3
Dealing	13
Finance	6
Human resources and administration	12
Investment banking	9
Institutional sales	6
IT	9
Operations	14
Total	129

We have policies on staff dealing and anti-money laundering for our employees. For further details, see "Risk management and internal control – Staff dealing rules" and "Risk management and internal control – Anti-money laundering".

As at 31 March 2016, our team of account executives comprised 53 members overseen by our head of brokerage department and four members overseen by our head of wealth management department, who have extensive experience in the financial industry.

INSURANCE

Our Group has taken out insurance for our regulated activities for loss of client assets due to theft by employees or other fraudulent acts as stipulated in the insurance policy as required under the Securities and Futures (Insurance) Rules. We also take out employee compensation insurance for our employees. As the major aspects of our operation have been covered by insurance, we believe that we have taken out sufficient insurance policies over our assets and employees which are customary policies and in line with industry practice. During the Track Record Period, we did not experience any material insurance claims.

PROPERTIES

As of the Latest Practicable Date, we did not have any property interest that forms part of property activities as defined under Rule 8.01(2) of the GEM Listing Rules. As at 31 March 2016, none of our property interests of non-property activities had a carrying amount of 15% or more of our Group's consolidated total assets. On this basis, pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Cap. 32L of the Laws of Hong Kong), this document is exempt from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

We have been leasing from the Independent Third Parties three properties in Hong Kong with an aggregate leased area of 25,019 square feet for our office premises. As at the Latest Practicable Date, we leased office premises situated at 30/F, AIA Central, 1 Connaught Road Central, Hong Kong ("**AIA Central**") and at 32/F, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong ("**Infinitus Plaza**"). Under the existing tenancy agreements, the leases of our office premises at AIA Central and Infinitus Plaza were entered into for a term of three years ending on 16 July 2017 and four years ending on 14 August 2017, respectively.

Apart from office premises, as at the Latest Practicable Date, we had also been leasing from the Independent Third Parties six residential properties in Hong Kong with an aggregate leased area of 4,625 square feet for our Directors' or staff's accommodation. Under the existing tenancy agreements, the leases of the residential properties were entered into for a term of two years ending on 31 August 2016, 31 August 2016, 7 July 2017, 31 July 2017, 4 May 2018 and 7 May 2018, respectively.

The rental expenses we incurred in aggregate amounted to HK$7.5 million, HK$19.3 million and HK$4.9 million for the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, respectively. We do not foresee any difficulty in the renewal of our existing leases.

LEGAL AND REGULATORY COMPLIANCE

Licensing requirements

Regulated activities

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

In particular, our Group is required to be licensed with the SFC and be admitted as a Stock Exchange Participant to carry on our business. Set out below is a summary of the material licences and trading rights currently held by our Group:

(a) Licence under SFO to carry on 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

(b) Stock Exchange Participant (Participant ID: 01938)

(c) Stock Exchange Trading Right (Distinctive No. 1050)

(d) Stock Exchange China Connect Exchange Participant (Participant ID: 01938)

(e) Stock Exchange Options Trading Exchange Participant (HKATS Customer Code: IND)

(f) SEOCH Direct Clearing Participant (DCASS Customer Code: CIND)

(g) HKSCC China Connect Clearing Participant (Participant ID: B01938)

(h) HKSCC Direct Clearing Participant (Participant ID: B01938)

(i) Futures Exchange Futures Commission Merchant (HKATS Customer Code: IND)

(j) HKCC Clearing Participant (DCASS Customer Code: CIND)

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

The above licences and trading rights of our Group have no expiry date and will remain valid unless they are suspended or revoked by the SFC, the HKEX, the Stock Exchange, the SEOCH, the HKSCC, the Futures Exchange or the HKCC (as the case may be).

The number of our Responsible Officers for our 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 as at 31 March 2016 were altogether 15. The table below sets forth the breakdown of our Responsible Officers as at 31 March 2016:

	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)	Type 9 (Asset management)
No. of Responsible Officers	10	6	5	2	3	3

The table below sets out the number of Licensed Representatives for each type of regulated activity as at 31 March 2016:

	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)	Type 9 (Asset management)
No. of Licensed Representatives	101	48	18	–	5	6

Money Lenders Licence

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

Under our current Money Lenders Licence, our money lending business is licensed under the Money Lenders Ordinance to carry out money lending activities for a period of 12 months from 11 February 2016 and the current licence will cease to have effect on 12 February 2017. A renewal of licence can be applied for within a period of three months prior to the expiration of the Money Lenders Licence. We do not foresee any difficulty in the renewal of our Money Lenders Licence.

Our Directors have confirmed that we have obtained all material licenses, permits or certificates necessary to conduct our business operations from the relevant governmental bodies in Hong Kong. For details of the applicable regulatory and licensing requirements, see "Regulatory Overview".

Legal proceedings

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

Regulatory compliance

In 2013, we reported to the SFC that CISI Brokerage and CISI Futures during certain period in 2012 had respectively failed to transfer funds in relation to securities or futures transactions and payment of commission by clients from such transactions from segregated trust bank accounts to the respective house bank accounts within one business day in accordance with section 10 of the Securities and Futures (Client Money) Rules. The occurrence of the above incidents was mainly due to the unfamiliarity of the relevant staff with our internal procedures and policies during trial operations conducted at the early stage of operation of CISI Brokerage and CISI Futures, which commenced operations in 2012. We had taken remedial actions after the incidents by transferring the relevant fund (other than client monies) from the segregated trust bank accounts to our house accounts and had refined our internal procedures after completion of our trial operation to prevent reoccurrence of similar incidents. Furthermore, in 2013, we reported to the SFC (the "**2013 Report**") that, during the period from 11 July 2013 to 8 August 2013, the securities of a margin client of CISI Brokerage were erroneously deposited in the sub-account designated for cash clients held in CCASS in breach of section 5 of the Securities and Futures (Client Securities) Rules. We discovered such error through the periodic reconciliation conducted by our settlement head and immediately rectified the error on the same day. In addition, in the letter from the SFC dated 18 December 2013, it was noted by the SFC that CISI Brokerage had commingled cash and margin clients' securities, including overseas listed securities, in cash accounts maintained with external brokers, which was not in compliance with paragraph 11.1(a) of the Code of Conduct. The occurrence of the above incidents was mainly due to the unfamiliarity of the relevant staff with the operation of our systems and the oversight of our staff. Since the occurrence of these incidents, we had strengthened our internal control procedures by increasing the frequency of stock reconciliation by our staff, setting up additional accounts with the external brokers concerned to separate the assets of cash and margin clients, imposing additional approval procedures and enhancing on staff training to prevent reoccurrence of similar incidents. After filing our reports to the SFC, we were requested by the SFC to establish and maintain policies and procedures to ensure future compliance with all applicable requirements including the Securities and Futures (Client Money) Rules and Securities and Futures (Client Securities) Rules at all times. During the Track Record Period and up to the Latest Practicable Date, we were not aware of any reoccurrence of similar incidents or contravention of the Securities and Futures (Client Money) Rules, the Securities and Futures (Client Securities) Rules or the Code of Conduct.

Our Directors have confirmed that we were in material compliance with applicable laws during the Track Record Period and up to the Latest Practicable Date. Our Directors have confirmed that none of our Company or any of its subsidiaries had been penalised for breach of applicable laws that had significant or material impact on our business or operations during the Track Record Period and up to the Latest Practicable Date. Our Directors have also confirmed that none of our existing Directors or members of our senior management had been penalised for breach of applicable laws that had a significant or material impact on our business or operations during the Track Record Period and up to the Latest Practicable Date.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

(a) the ability to carry on the business in an orderly and efficient manner;

(b) the safeguarding of our and our client's assets;

(c) the maintenance of proper records and the reliability of financial and other information used within and published by the business; and

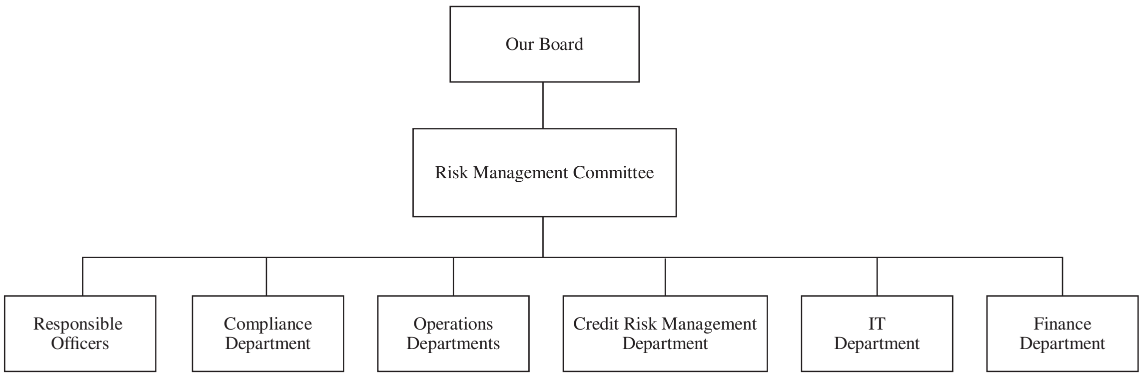
(d) the compliance with all applicable laws and regulatory requirements.

During the ordinary course of our business activities, we are exposed primarily to the following risks: (a) credit risks arising from the default of our client in performing his or its contractual obligations, which mainly exist in our brokerage and loans and financing businesses; (b) liquidity risk arising from our Group's inability to meet our payment obligations when they fall due under normal and stress circumstances; (c) operational risks arising from improper operation or errors in executing transactions; (d) regulatory risks of being subject to legal sanctions, enforcement actions, imposition of penalties arising from non-compliance of our operations with the applicable rules and regulations; (e) legal risk in respect of illegal or improper use of our operations by us, our employees or third parties; and (f) market risk arising from the change of market, including the risk of price fluctuation in equity-based assets and interest rate risk resulting in loss of or decrease in income or value of our trading or investing positions.

As part of our initiatives to manage these risks, we have in place risk management structure and implemented compliance and operational manuals, which contain credit policies, operating procedures and other internal control measures. A summary of our risk management structure, key internal control policies and procedures is set out below.

Risk management structure

We have established a three-level risk management structure. Set out below is the organisational structure of our risk management:



Our Board

Our Board is the highest level of our risk management and internal control structure. It is ultimately responsible for establishing an effective risk management environment. Its responsibilities include: (i) developing the overall risk management targets, risk management policies and internal control systems; (ii) optimising the governance structure and authorisation hierarchy; (iii) guiding and defining the limits for specific risk management work; and (iv) authorising responsibilities to other departments.

Risk management committee

We established the risk management committee in 2012, which as at the Latest Practicable Date comprised our chief executive officer, namely, Mr. Huang Jinguang, our deputy chief executive officer, namely, Mr. Wang Xiang, our deputy chief executive officer and chief financial officer, namely, Ms. Zeng Yanxia, our chief operating officer of CISI Brokerage, namely, Mr. Miao Chih Chen, our head of finance department, namely, Mr. Wang Luning, our head of compliance, namely, Mr. Cho Ka Wai, and our head of credit risk management department, namely, Mr. Lam Wing Yiu. Mr. Wang Luning is a non-practising member of the Chinese Institute of Certified Public Accountants and has over 13 years of experience in the accounting or financial services industry; and Mr. Lam Wing Yiu has over 14 years of professional risk management experience. For the relevant qualifications and experiences of other committee members, please refer to the section headed "Directors, Senior Management and Staff".

Organised under our Board, our risk management committee is designed to assist our Board in reviewing and formulating appropriate risk management policies and overseeing our compliance with these policies as well as the laws and regulations applicable to our principal business operations. The risk management committee is mainly responsible for: (i) overseeing our general risk management and internal control systems for our principal business operations; (ii) reviewing and modifying our internal control policies; (iii) formulating contingency plan and monitoring the implementation thereof; and (iv) ensuring all risks associated with our business activities are identified and controlled.

Responsible Officers

As at 31 March 2016, we had a total of 15 Responsible Officers. Our Responsible Officers have a supervisory and monitoring role in relation to their respective business units which carry out different types of regulated activities. They are responsible for managing and overseeing the daily operations of their respective business units and implementing risk management measures to ensure compliance with the SFC regulations and guidelines. They work closely with our compliance department and take appropriate remedial actions to rectify any irregularity. For example, the Responsible Officers of our brokerage and loans and financing businesses were responsible for (i) reviewing daily dealings and transaction records and reports; (ii) day-to-day margin call and all aspects of credit and risk management; (iii) ensuring client orders are executed in a fair, efficient and accurate manner; (iv) ensuring complete and proper business records are kept at all times; (v) supervising the trading behavior of dealers and traders; and (vi) controlling and monitoring compliance issues and solving dealing problems.

Compliance department

The compliance function of our compliance department consists of setting our internal control standards and regulatory compliance. On internal control, our compliance department sets procedures such as staff dealing policy and reviews control areas such as Chinese wall, segregation of businesses, conflicts of interests, policies on accounts opening and dealing practices. Our compliance department assists the relevant business units in periodically reviewing the internal policies in order to cope with the latest developments of the relevant laws and regulations. Furthermore, our compliance department provides legal support to our Group's business functions. On regulatory compliance, our compliance department constantly monitors the requirements applicable to our business and the changes in licensing as well as regulatory requirements of the SFC.

As at 31 March 2016, our compliance department consisted of five professional staff, among which two had over 10 years of experience in legal compliance or related discipline.

Credit risk management department

Our credit risk management department is mainly responsible for assessing and approving the credit lines granted to our clients and monitoring our credit risk exposure under our loans and financing segment, which includes monitoring the trading activities of our clients. Dedicated personnel from our credit risk management department discuss and evaluate any need for improvement in our risk control system with representatives from other departments or at our risk management committee meetings on a regular basis.

As at 31 March 2016, our credit risk management department consisted of three professional staff. The head of our credit risk management department, Mr. Lam Wing Yiu ("**Mr. Lam**"), has over 14 years of professional risk management experience. Mr. Lam graduated from the University of Wollongong in Australia with a Bachelor's degree of Commerce (Finance and Economics) in July 2000 and from the University of New South Wales in Australia with a Master of Commerce in Fund Management in July 2001. Prior to joining our Group, Mr. Lam worked for Guosen Securities (HK) Financial Holdings Co., Ltd as a Credit Control Officer in Risk Management Department of Sales and Trading Division from December 2013 to February 2014. Mr. Lam worked for BOCOM International Holdings Company Limited as a Vice President of the Risk Management Department from September 2012 to December 2013. Mr. Lam worked in Core Pacific – Yamaichi International (H.K.) Limited from December 2004 to August 2012, and his last position was the Manager of Risk Management Department. He also worked in the Risk Management Department of Core Pacific – Yamaichi International (H.K.) Limited from September 2001 to July 2003. Mr. Lam obtained the Professional Certificate in Financial Risk Management awarded by Li Ka Shing Institute of Professional and Continuing Education, The Open University of Hong Kong in October 2007. He was granted the designation of Financial Risk Manager by the Global Association of Risk Professionals since April 2008.

Operations departments

Our operations departments perform their risk management function by ensuring that client money is deposited and held into the segregated accounts with authorised financial institutions in accordance with the Securities and Futures (Client Money) Rules and that there is no misappropriation of client money, thereby managing our regulatory and legal risks in this regard.

IT department

Our IT department performs its IT risk management functions by implementing policies and procedures to ensure the integrity, security, availability, reliability and thoroughness of all information (including documentation and electronically stored data) relevant to our Group's business operations to ensure compliance with the various circulars, guidelines and codes on IT management issued by the SFC.

Finance department

Our finance department is responsible for monitoring our compliance with the FRR on an ongoing basis, such as computing liquid capital estimation on a daily basis to ensure that timely information is conveyed to our management and submitting an FRR report to the SFC on a monthly basis. Our finance department also monitors the daily reconciliation of client trust bank accounts and our bank account for funding and settlement purposes to ensure compliance with the Securities and Futures (Client Money) Rules, conducts review regularly and takes remedial actions as soon as any discrepancy is noted.

Monitoring and management of major risks

Credit risks

We manage credit risks primarily through the following measures:

- we have established risk management committee primarily responsible for designing risk management structure and strategies for our principal business units, reviewing and monitoring the implementation of risk management policies for our principal business units, identifying risks, approving trading limit and credit limit, and updating our risk management policies in response to changes;

- we have implemented "know-your-client" procedures and credit check to ascertain the background of our potential clients;

- we perform credit assessment on potential clients especially in our loans and financing business, and require our futures brokerage clients and loans and financing clients to provide margin deposit or acceptable collateral (as the case may be) to minimise our exposure;

- we closely monitor the margin ratio and loan-to-value ratio of our loans and financing clients and take appropriate action to recover or minimise our loss where we foresee that our client may default in his or its obligation;

- we have credit risk management department responsible for the evaluation of the customers' creditworthiness, financial background, value of the collaterals provided and repayment abilities in our daily operation;

- we have credit policy with respect to the trading limit, credit line and credit period granted to our brokerage and loans and financing clients, which are subject to our on-going review and revision; and

- we conduct stress tests in respect of our outstanding margin loans to assess our exposure to credit risks.

Liquidity risks

We manage liquidity risks primarily through the following measures:

- we have in place liquidity risk management system to identify, measure, monitor and control potential liquidity risk and to maintain our liquidity and financial resources requirements as specified under applicable laws and regulations, such as FRR. Monthly financial statement analysis and variance comparison against budget are performed by the management to identify any potential capital shortfall;

- we have established a multi-tiers authorisation mechanism and internal policies for the management and approval of the use and allocation of capital. Authorisation limits are set for any commitment or fund outlay, such as procurement, investments, loans, etc.. Our finance department assesses the impact of those transactions on the capital level;

- we meet our funding requirements primarily through bank borrowings from multiple banks. We have also adopted stringent liquidity management measures to ensure we satisfy capital requirements under the applicable laws; and

- we have established limits and controls on margin loans and money lending loans on an aggregate and individual loan basis.

Operational risks

We manage operational risks primarily through the following measures:

- we have Responsible Officers responsible for overseeing our day-to-day operations, controlling and monitoring compliance issues and solving dealing problems;

- we have formulated operational manual for each business function to standardise our operational procedures and reduce human errors. We have surveillance systems to monitor the trading activities of our business units and staff on a real-time basis;

- we set authorisation hierarchy and procedures for our daily operations, such as granting trading limit and credit line and closing out error trades, to reduce the risk of unauthorised activities;

- we have implemented a policy requiring our dealing staff to follow order taking procedures and report to the Responsible Officer and compliance department in writing as soon as they are aware of any error trade, and close out error position in accordance with our internal policy;

- we require all trading information be uploaded simultaneously to our computer system or recorded in accordance with our paper filing system and be backed up on a daily basis. Records relating to our clients in our regulated activities shall be kept for at least seven years. Client telephone records shall be kept for at least six months as required by the Code of Conduct; and

- we provide regular training and formulate contingency plans to increase the capability of our staff to manage operational risks in emergency situations, such as system breakdown or power failure.

Regulatory and legal risks

We manage regulatory and legal risks primarily through the following measures:

- our compliance department conducts checks and inspections on our business units and reports irregularities to our senior management and the relevant department head for further action;

- we have formulated compliance and operational manual for each business function, which shall be observed by our employees at all levels;

- our finance department monitors our compliance with the FRR on an ongoing basis. Under our policy, liquid capital estimation is computed on a daily basis to ensure that timely information is conveyed to our management. In addition, we submit an FRR report to the SFC on a monthly basis;

- we require client money be deposited and held into the segregated accounts with authorised financial institutions in accordance with the Securities and Futures (Client Money) Rules. Our finance department monitors the daily reconciliation of client trust bank accounts and our bank account for funding and settlement purposes to ensure compliance with the Securities and Futures (Client Money) Rules, conducts review regularly and takes remedial actions as soon as we notice any discrepancy;

- we have implemented "know-your-client" procedures across our business functions. For example, the execution team in our investment banking business conducts due diligence in connection with each transaction, including review of due diligence materials, on-site visits, attendance at meetings, conducting interviews with issuers or listing applicants and their directors, senior management and employees;

- through our surveillance system, we closely monitor and detect unusual and irregular trading activities, and generate exceptional trade report to our compliance department and relevant department head or Responsible Officers for further action;

- our compliance department closely monitor our licensing status and conditions, and arrange for the renewal of licence such as our money lender licence before expiry. Our compliance department is required to notify the regulator in accordance with the notification requirements of the Code of Conduct and/or other applicable laws, rules, regulations and guidelines;

- we have implemented procedures and appointed complaints officer under our compliance department for handling complaints received from clients in relation to our regulated activities; and

- our compliance department arranges for continuous professional training on topics such as anti-money laundering for our staff from time to time.

Market risks

We manage market risks primarily through the following measures:

- our senior management and head of business units regularly review our balance sheet, profit and loss accounts and credit granted to clients to identify the risk exposure of our Group, especially during adverse market movements;

- we review market risk limits for certain business lines such as our asset management and proprietary trading business to manage risk and periodically review and adjust our market strategies in response to changes in our business performance, risk tolerance levels and variations in market conditions;

- we review our trading positions on a daily basis and general market condition from time to time;

- our investment decision committee is responsible for formulating investment policies and guidelines and our investment managers are responsible for executing investment decisions;

- our business units such as investment banking department internally discuss and evaluate market risks relating to potential new engagement and new businesses prior to engaging in any such new transaction or launching of any such new business;

- our risk manager monitors our daily asset management activities to ensure that the investment strategy and scope, asset allocation, selection of asset class and concentration level of each asset management product matches its product descriptions and disclosure in marketing materials; and

- our mandate committee and underwriting committee under our investment banking department make decisions before acceptance of new engagement and during the process of each IPO transaction and those transactions that have been classified as highly risky.

Risk management and internal control measures for our brokerage business

The primary risks faced by our brokerage business include credit risks, operational risks and regulatory and legal risks. We manage these risks through the following measures:

Accounts opening	:	We require our brokerage clients to complete our account opening procedures to verify the identity of the account owner and ultimate beneficial owner. Our account opening staff is required to check against the list of politically exposed persons before accepting a new client.
Risk disclosure	:	Before we sign the client agreement, our staff explains to our client the terms of the agreement and the risks involved in making investment and using our trading platforms.
Credit assessment	:	We assess potential client's creditworthiness by reference to his or its financial standing, repayment ability and credit history with us (if any). Where necessary, we conduct credit search with external credit check agencies to obtain background information and credit history of our client.

Credit policy	:	We may set a trading limit for cash account or margin account clients on a case-by-case basis to minimise our exposure between trade execution and settlement. We have established an approval hierarchy for different tiers of trading limit granted to clients. For futures brokerage clients, we require them to make deposit and close out the position if such clients fail to replenish our required deposit.
Order taking	:	Our staff responsible for handling clients' orders must be registered with the SFC as either a Responsible Officer or a Licensed Representative. All client orders shall be received from and/or confirmed to clients using our internal telephone recording system or processed through our online trading platform. Our staff must follow our order taking procedures to ensure client orders are executed promptly and in accordance with our client's instructions. Trading records shall be reviewed after trading hours and recorded and backed up on a daily basis. Trading error shall be promptly reported and rectified in accordance with our internal policy.
Transaction monitoring	:	Our surveillance system monitors client transactions on a real-time basis and detect unusual or irregular trading activities. The system adopts pattern recognition for detection of transaction activities that may be intended to manipulate markets in financial instruments. For example, the system generates alerts where a client has placed significant buy and sell trades within a short time period or where a trader has placed large orders in terms of volume or converted value in a specific instrument. For post-trade monitoring, exceptional trade report is generated to our compliance department and relevant Responsible Officers or department head for further analysis and investigation.

Account executives	:	Our account executives are responsible for the regulatory compliance of the trading activities of the clients referred by them conducted through our trading platform. Any instances of non-compliance shall be reported to us as soon as possible. Our account executives are required to comply with the same set of internal control rules and measures that governs our in-house client managers, our internal policies and any applicable laws and regulations, which include our order taking procedures detailing the manner and channels of order taking. Trades executed by our account executives are monitored by the same surveillance system described in "Risk Management and Internal Control – Risk management and internal control measures for our brokerage business – Transaction monitoring" above which also detects unusual or irregular trading activities of our account executives. Monthly reports on the commission generated by our account executives are generated and reviewed by head of relevant business units.

Risk management relating to our loans and financing business

Our risk management committee and credit risk management department are primarily responsible for monitoring the risks associated with this business segment. The primary risks faced by our loans and financing business include credit risks and regulatory and legal risks. We manage these risks through the following measures:

Risk management structure	:	We have multi-levels risk management system to monitor our risks associated with this business line and formulate and revise risk management policies and internal control measures in response to changing credit environment.
Risk disclosure	:	For margin financing, before we sign the client agreement, our staff explains to our client the terms of the agreement and the risks involved in applying for margin financing and consequence for failing to meet our margin calls. For money lending, in addition to the contractual terms required under the Money Lenders Ordinance, client's attention is drawn to the provisions of Part III and Part IV of the Money Lenders Ordinance before we sign the loan agreement with client.
Credit assessment	:	For details, see "Business – Our business – Loans and financing – Loan management". Further, we also assess the market value, type, liquidity and volatility of securities offered as collateral on a regular basis.

Credit policy	:	We approve credit line for each margin account client on a case-by-case basis with close reference to our credit assessment results as well as the prevailing market conditions. Credit line is the standby loan facility which could be granted to a client. We have in place an approval hierarchy for different tiers of credit line granted to our clients. We adopt similar credit policy for clients of our money lending business.
Collateral requirement	:	For margin financing, we require our client to provide with us collateral sufficient to cover the loan amount when we grant the loan. Normally only securities quoted on the Stock Exchange are eligible as collateral. In addition to listed securities, we also accept other collateral such as securities listed on overseas stock exchanges and bonds. The market values of overseas securities can be assessed based on the daily trading prices quoted on the relevant stock exchange, whereas the market value of the bonds can be ascertained based on the reference prices quoted on third party information platform. Our credit risk management department monitors the market value of securities listed on overseas stock exchanges and bonds based on public market information on a daily basis and our head of credit risk management department had over 14 years of professional risk management experience. Additional collateral or further security may be sought during the term of the loan to manage our exposure against fluctuation of the value of the collateral received. Similar collateral requirements apply to money lending clients of secured loans.

For unsecured loan, since it would expose our Group to a higher credit risk, we will approve such loan only in circumstances where we are satisfied as to the recoverability of the loan by reference to our evaluation on the financial strength and credibility of the potential client as well as the amount of loan involved. Further, we set the following limits before we agree to grant any unsecured loan: (a) the term of such loan shall be no more than 24 months; (b) the size of any single unsecured loan shall not exceed HK$3.0 million; and (c) the total outstanding amount of all unsecured loans already granted shall represent not more than 5.0% of the total lending limit under our money lending business, subject to a cap of HK$10 million, in a given period. We will perform assessment on the creditability and repayment ability of the potential client applying for unsecured loan, and only client who is a Hong Kong resident, an existing client of our Group with no less than six months trading record with us and with no record of litigation involving money dispute, criminal record or bankruptcy record is eligible to apply for unsecured loan. The application for any unsecured loan shall be reported to and approved by our risk management committee. We will continue to first require our potential money lending client to provide collateral and security sufficient to cover the loan amount and we may only agree to extend such loan on an unsecured basis if such client fulfils our criteria and the loan is made subject to the controls as mentioned above.

Margin ratio/ loan-to-value ratio : We set a margin ratio which each of our margin clients is required to maintain.

We set a loan-to-value ratio which each of our money lending clients of secured loans is required to maintain.

See "Business – Our business – Loans and financing." for details of our loan management.

Post-lending monitoring	:	We monitor the margin ratio or loan-to-value ratio of clients to whom we have provided lending on a regular basis. A daily report on our client's outstanding loan amount, value of the collateral and margin ratio/loan-to-value ratio is generated for our ongoing monitoring and review. For margin financing, we will issue margin call and are entitled to liquidate the collateral held by us in case our client defaults or otherwise fails to meet the approved margin ratio after receiving margin call from us. For money lending, we have adopted similar procedures to require our client of secured loan to bring the loan-to-value ratio back to our acceptable level as and when the collateral and security (if any) provided is considered to be insufficient. For unsecured loan, our credit department will conduct annual review on each loan which remains outstanding and during the term of the loan, if we notice that there is a material deterioration in the client's financial position, we may require repayment from client after reporting to risk management committee. We are entitled to take debt collection actions in accordance with the loan agreement and our policy and realise the collateral (if any) if our client is unable to fulfil his or its payment obligations as our last resort. For unsecured loan, we will take collection action for overdue amount, negotiate with our client for settlement and initiate legal proceedings against the client as our last resort. See "Business – Our business – Loans and financing – Post-loan monitoring" for details.
Lending limits	:	Pursuant to our policy, we set limits on the overall loan amount extended to margin clients, under which if the actual margin loan balance exceeds 90% of our limit, our credit risk management department shall send alert to our risk management committee. In addition, to manage our concentration risks, we set a limit on margin loan which is solely or primarily secured by single stock or securities. A prescribed ratio is set for the amount of margin loans secured by a single stock or securities to our limit on total margin loan. We also set limits on the loan amount extended to any single client (including his or its related party) as compared to the total amount of margin loans extended by our Group. Our credit risk management department monitors the lending limit on regular basis and any margin lending in excess of such limit shall be reported to and approved by our risk management committee.

Risk management relating to our investment banking business

The primary risks faced by our investment banking business include market risks and legal and regulatory risks. We manage these risks through the following measures:

- we have operational manual setting out work procedures and risk management with respect to taking up new appointment, project planning, execution and closing, the reporting lines at different stages of the transactions and the restrictions and supervisions on dealings by our staff;

- we have established two committees under our investment banking segment, namely, the mandate committee and the underwriting committee, for the purpose of making decisions before acceptance of new engagement and in the process of each IPO transaction and those transactions that have been classified as highly risky under the risk assessment. These committees which comprise senior personnel of our investment banking department, representatives from the management team and compliance department hold meetings to determine whether to proceed with the prospective engagement in a potential transaction, evaluate the risk involved, discuss how to mitigate risks during the engagement and submit their recommendation to our senior management for approval where required;

- our execution team conducts thorough due diligence in connection with each transaction, including conducting "know-your-client" procedures, reviewing due diligence materials, business, financial and legal matters, conducting on-site visits, conducting interviews with issuers and their directors, senior management and employees; and

- our compliance department and, in some cases, our external legal counsel are responsible for reviewing agreements relating to our investment banking business.

Risk management relating to our asset management business

The primary risks faced by our asset management business include market risks and legal and regulatory risks. We manage these risks through the following measures:

- our investment decision committee is responsible for formulating investment policies and guidelines, reviewing asset allocations, making major investment decisions and setting authorisation limits on investment managers in investment activities;

- our investment decision committee comprised our chief executive officer, Mr. Huang Jinguang, our deputy chief executive officer, Mr. Wang Xiang, our deputy chief executive officer and chief financial officer, Ms. Zeng Yanxia, our head of asset management division, Mr. Liu Chung Kuang, our head of compliance, Mr. Cho Ka Wai and our head of finance department, Mr. Wang Luning. As at the Latest Practicable Date, we were still in the process of recruiting our head of investment department and head of research department who would form part of the investment decision committee. For the relevant qualifications and experiences of other committee members, please refer to the section headed "Directors, Senior Management and Staff";

- we have maintained a carefully selected "securities pool" for our investments based on research recommendations given by our research department. The selected "securities pool" is reviewed on a quarterly basis. Our investment managers are allowed to invest only in securities in the pool unless prior written approval is obtained;

- for asset management schemes invested in equity securities, we have mechanisms that sets pre-determined limits to stop profit or loss in relation to any single security or an asset portfolio. We also set authorized limits on investment in any single security in an asset portfolio and require further approval for any trade beyond such limit;

- we require our asset management business to be segregated from our brokerage, wealth management and investment banking businesses in order to prevent insider trading and avoid conflicts of interest;

- we are required to assess the potential client's financial condition, investment experience, investment preferences, risk awareness and risk tolerance level so that we can recommend products or services suitable for the client's risk tolerance level. We also require our clients to provide assurance on the legality of the source of the assets under management. Further, we require our client to make acknowledgement of the risks involved in subscribing the relevant investment products;

- we maintain segregated asset management accounts at qualified commercial banks and authorized financial institutions to hold client funds; and

- we monitor transaction activities on a timely basis and unusual trading activities shall be reported to our relevant Responsible Officers or department head and compliance department for review and taking further action.

Risk management relating to our proprietary trading business

The primary risks faced by our proprietary trading business include market risks, credit risks, operational risks, and legal and regulatory risks. We will manage the associated risks through the following measures when we make any new investment on a proprietary basis:

- We have established a multi-level management system for our proprietary trading business:

  – our Board: our Board determines the overall size of our proprietary investment and is the highest decision making body for determining and authorising our investment strategy;

  – our investment decision committee: our investment decision committee is the highest management body for all classes of proprietary trading. Our investment decision committee is responsible for formulating investment policies and guidelines, making major investment decisions and setting authorisation limits on investment managers in investment activities. Our investment decision committee evaluates and adjusts our investment strategies from time to time based on research and analysis of the latest changes and developments in the securities market, economic conditions and government policies. It also sets risk control indications related to assets allocation between our proprietary trading and single security investment product based on our Company's investment business development needs; and

  – our fixed income department: our fixed income department is responsible for execution of our proprietary trading in accordance with the strategies and limits set by our Board and our investment decision committee. The head of the department should supervise different teams to conduct research on investments, execute trade orders and monitor daily operations to implement effective risk control.

- Our investment decision committee comprised our chief executive officer, Mr. Huang Jinguang, our deputy chief executive officer, Mr. Wang Xiang, our deputy chief executive officer and chief financial officer, Ms. Zeng Yanxia, our head of fixed income department, Mr. Qian Jin ("**Mr. Qian**"), our head of compliance, Mr. Cho Ka Wai and our head of finance department, Mr. Wang Luning. Mr. Qian has over nine years' experience in trading and investment in equity and debt securities. Prior to joining our Group, Mr. Qian worked for various financial institutions as a licensed representative. From April 2013 to April 2016, he worked for Hyundai Securities (Asia) Limited as the bond trader and director. Mr. Qian graduated from the London Business School with a Master of Science degree in Finance in September 2005 and a Master of Business Administration from Solvay Brussels School in Belgium in September 2001. He obtained a Bachelor's degree of Economics with a major in Human Resource Management from Shanghai Jiao Tong

University in July 1999. Mr. Qian is a Chartered Financial Analyst since November 2004. As at the Latest Practicable Date, we were still in the process of recruiting our head of investment department and head of research department who would form part of the investment decision committee. Until we have recruited such personnel, Mr. Qian Jin, assisted by the financial analysts, is primarily responsible for managing the investment functions of our Group, and Mr. Wang Xiang, assisted by the sales team, is primarily responsible for managing the research functions of our Group. We leverage on the experience of the current members of the investment decision committee, the collaboration between different business units and holding regular and *ad hoc* committee meetings for ensuring that the investment decision committee functions effectively. For the relevant qualifications and experiences of other committee members, please refer to the section headed "Directors, Senior Management and Staff".

- Our management and execution teams are required to adhere to a strict decision-making and execution process when conducting proprietary trading:

  - our investment research team has established a securities pool based on their research and analysis, and our investment managers shall make investment portfolio decisions only among those securities for our proprietary trading;

  - we determine our scale of investment and risk tolerance thresholds and adjust our actual trading activities and portfolio based on prevailing market conditions and our investment strategies;

  - our investment decision committee holds monthly meeting and *ad hoc* meetings when appropriate to determine and review the risk management strategies, scale of investment, risk tolerance levels and trading limits;

  - we have set trading limits on the ratio of individual stocks, and authorise our investment managers to make investments within the pre-set limits. The specific ratios are as follows: the cost of each fixed income securities held in any stable interest income securities portfolio shall not be more than 15% of the total authorised investment amount; the cost of each fixed income securities held in any trading debt securities portfolio shall not be more than 10% of the total authorised investment amount; the amount of equity securities and derivatives shall not be more than 10% of the total authorised investment amount; and the cost of each equity securities held shall not be more than 5% of the total authorised investment amount;

  - investment orders made by investment managers are executed by our Group's brokerage department and all trades shall be executed in accordance with our trading and risk management guidelines and the relevant rules and regulations governing such trades. Approval from our investment decision committee is required for any investments exceeding our pre-set trading limits or material adjustments in asset allocation; and

– our risk control team is responsible for monitoring the daily operations of our proprietary trading activities and to ensure compliance with our trading policies. The team shall prepare daily reports on the settlement and risk control indicators on our investments.

- We have implemented the following measures in managing risks relating to our proprietary trading business:

  – we may leverage our investment to improve return and the gearing ratio will be strictly maintained at below 50%, as determined by our investment decision committee;

  – we determine our asset allocation by evaluating the future trends of the investment environment and analysing changes in the structure of fund supply and demand in the financial markets, based on domestic and overseas macro-economic directions and changes in interest rate policies;

  – for the asset allocation amongst various types of bonds in our portfolio, we also assess the spread level, relative investment values, relative yield, shape of yield curve, major risks, degree of liquidity and capability of revenue generation of different types of bonds;

  – we monitor our investments on a timely basis, including our trading positions, unrealised profit or loss, risk exposure and trading activities;

  – we diversify our investments and limit the size of our investment in relation to any single product, client or type of investment; and

  – we establish mechanisms that set pre-determined points to stop profit or loss on an overall basis or on each individual stock. For instance, if the floating loss of any single bond reaches a level of more than 5% (calculated based on the daily closing price against cost price), the relevant bond will be put under observation; if the floating loss of any single bond reaches a level of more than 10% (calculated based on the daily closing price against cost price), the relevant bond will be put under a state of alert and the risk management unit of our proprietary trading business will inform our head of fixed income department, our compliance department and the relevant investment managers in writing regarding any fluctuations of the relevant bond on a daily basis.

Specifically in respect of our proprietary trading of debt securities, in addition to the above, we have developed the following measures to manage our risks:

– we have developed investment strategies for bond portfolio. See "Business – Our Business – Proprietary trading – Investment strategies" for details;

– to manage our credit and market risk exposure, we have adopted stringent selection strategies for different types of bonds we will invest;

– we formulate different selection criteria for bonds, limit the investment in industries and enterprises with excess capacity and negative news, and track and monitor the trends of macro economy and investment concentration ratio to optimise our investment strategies;

– on portfolio level, we have stop-loss mechanism in place. See "Business – Our Business – Proprietary trading – Investment strategies" fot details;

– we diversify fixed income investment portfolios, and continually track the changes on the operation, credit rating and solvency of the issuers; and

– we control the investment horizon of our debt securities investment. We will set up a "bonds pool" in line with our business needs which will govern our daily investment activities to ensure stable long term gains. Changes in the selected "bonds pool" will be reviewed by our investment decision committee on a monthly basis.

Conflict of interests

We conduct conflict checks on potential client before accepting a new engagement to provide services. We have to be satisfied as to the identity of the directors and beneficial owner's of the potential client and its financial standing and source of funds.

We maintain a restricted list of securities, the trading of which for our Group's own accounts, accounts for employees and related accounts are restricted. Employees are prohibited from trading in securities on the restricted list. Such list is confidential and shall not be disclosed to persons outside the Group. We also maintain a watch list which is a confidential list of securities in relation to which we or our employees may have received material information or has been retained to provide advice. Any employee who is related to the issue of such securities is prohibited from trading in the relevant securities.

Compliance with FATCA

To ensure that we comply with FATCA requirements, we have adopted the following measures:

- registering with the IRS;
- enhancing our current account opening procedures to ensure compliance with FATCA;
- conducting reviews of our existing client accounts to identify any accounts held by U.S. taxpayer; and
- providing training and guidance to our employees with respect to the new requirements under FATCA.

Given that we have registered with the IRS and implemented enhanced account opening procedures to identify U.S. accounts and clients in compliance with FATCA, and only an insignificant number of our existing client accounts were held by a U.S. taxpayer as at the Latest Practicable Date, our Directors believe that the implementation of FATCA in Hong Kong pursuant to the IGA has no material impact on our business operations, our Shareholders and clients.

Staff dealing rules

Generally, our employees should open a securities account with our Group for securities trading. Employees who have opened personal investment accounts with other financial institutions prior to commencement of employment shall submit the relevant statements of accounts to our Group on a monthly basis and inform our compliance department of any change in their accounts status within three working days of such change. Employees of our asset management and investment banking businesses, analysts and other specified employees are subject to more stringent rules of dealing.

Segregation of business

To minimise the risk of collusion and improper trading activities, we assign duties and functions to different departments and it is our policy that no employee could work concurrently for two or more departments with conflicts of interests or in situation where it may involve or result in improper dealing. For example, we require our brokerage business to be segregated from other businesses with conflicts of interest, such as asset management and investment banking. Under our policy, key functions, such as customer services, sales, trading, account opening, client money deposit and withdrawal, accepting delegation from clients and clearing and settlement should be properly segregated and separately handled by different staff. We also separately handle and manage our clients' funds from our own funds.

Chinese wall

Employees are required to ensure that all information relating to our clients, transactions and mandates are kept confidential. Any use of confidential information for personal purpose or for the benefit of any third party is strictly prohibited.

We have adopted Chinese wall, which is designed to restrict the flow of such information across different business functions. Our Chinese wall operates to separate those areas such as investment banking that routinely receive non-public and potentially inside information in the ordinary course of the business from those areas that deal in securities or provide investment advice, ensuring that those outside the Chinese wall should have no knowledge of confidential information within our Group. In case where it is necessary for our staff to "cross-over-the-wall", such "cross-over-the-wall" shall be strictly monitored and controlled. Prior approval from head of relevant business units and our compliance department shall be obtained, and confidentiality undertaking shall be given by the relevant staff before allowing access to confidential or potentially price sensitive information. Our staff will be given access to the information only to the extent necessary.

Compliance with the Personal Data (Privacy) Ordinance ("PDPO")

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

Anti-money laundering

To mitigate our money laundering risk, all of our staff members are required to adhere to the requirements set out in the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance and the SFC Guideline on Anti-Money Laundering and Counter-Terrorist Financing and any update relating thereto. We have also adopted the "policies, procedures and training" principle as provided in these guidelines by establishing and adopting policies and providing education and training to our staff on anti-money laundering. Our guidelines on anti-money laundering are provided in our Group-wide compliance manual and operational manuals provided to our staff to ensure that they are aware of the possibility of money laundering and their own personal legal obligations in relation thereto. In addition, we have set up an anti-money laundering committee to ensure compliance with the relevant rules and regulations regarding anti-money laundering.

We conduct ongoing monitoring by periodically requesting and reviewing updated information, data and documents relating to our clients. We also monitor the activities of our clients and identify transactions that are large and unusual.

If any suspicious activity is noted in the "ongoing monitoring" phase, our employees shall notify our money laundering reporting officer. If there exists reasonable grounds to justify that the clients or activity are indeed suspicious, the officer shall file a suspicious activity report ("**SAR**") to the Joint Financial Intelligence Unit.

In this respect, our money laundering reporting officer is responsible for:

- reviewing the internal suspicious activity reports submitted by our employees and determining whether to file an SAR to the Joint Financial Intelligence Unit;
- maintaining a record of the SARs filed; and
- acting as the main point of contact for matters relating to anti-money laundering.

In respect of our anti-money laundering efforts, we have adopted the "know your client" principle espoused in the guidelines mentioned above, whereby we require potential clients to provide us with proof of identity, their occupation, background and contact details for verification.

IT risk management

Circular on Information Technology Management

As described in the "Circular to All Licensed Corporations on Information Technology Management" issued by the SFC on 16 March 2010 ("**IT Circular**"), the licensed corporations are required to establish policies and procedures to ensure the integrity, security, availability, reliability and thoroughness of all information, including documentation and electronically stored data, relevant to the firm's business operations. The firm's operating and information management systems should meet the firm's needs and operate in a secure and adequately controlled environment. The IT Circular provides guidance on the control techniques and procedures in respect of the following key areas:

(a) Information security policy;

(b) Access control;

(c) Encryption;

(d) Change management;

(e) User activities monitoring; and

(f) Data backup and continuity planning.

There was no significant deviation in our Group's current internal control system identified during the Track Record Period in relation to the guidance on information technology management as described in the IT Circular issued by the SFC. Our Directors also confirmed that our Group was in material compliance with the applicable mandatory requirements as stipulated in the various circulars issued by the SFC to licensed corporations (including, but not limited to, the IT Circular and the "Circular to licensed corporations providing online trading services" issued by the SFC) up to the Latest Practicable Date. In addition, we regularly review our information technology internal control system.

Access controls

We have in place information security policy and rules which control over our information technology infrastructure. Access controls are in place so that all users' (including staff, clients and vendors of the securities/futures trading system and back-office system) access to the system has to be authorised by us. Password policies and standards are formalised to facilitate user authentication and access control. Our computer system and information processing facilities are protected by firewalls, intrusion protection systems and anti-virus software to prevent and detect any potential threats by computer viruses and other malicious software. Encryption is applied to the transmission of sensitive information. We perform compliance check against the established information technology policies. Daily backup procedures and business continuity plan are in place to ensure continuity of our operation.

INDEPENDENT REVIEW OF INTERNAL CONTROL SYSTEM

In December 2015, we engaged an independent internal control consultant ("**Internal Control Consultant**") to conduct an internal control review on our Group. Following such review, our Group has taken remedial measures such as establishing written policies as recommended by the Internal Control Consultant. Key area of concern and major findings identified in the internal control review and the remedial actions taken by our Group are set out in the following table:

	Key area of concern	Area of business operation	Findings	Remedial actions taken
(i)	Control environment	Internal policies	• Procedure for evaluating potential investments and ventures was not established	• Procedure for evaluating potential investments and ventures is established, which includes evaluation, review, approval and monitoring processes
(ii)	Revenue Management: margin financing	Margin call	• Documentation on margin securities liquidation assessment was incomprehensive to include the factors considered and the rationale to justify the liquidation or deferral of liquidation of securities pledged for margin loan	• Our Group enhanced the template of the "Margin Securities Liquidation Assessment Form", to include the factors considered and the rationale for margin liquidation assessments
(iii)	Revenue Management: asset management	Asset management	• Lack of documentary records for internal assessment of investment product cost, profit margin, risk and feasibility • General manager's approval records on new investment products were not maintained • Due to the departure of personnel and manpower limitation, for a certain period of time, duties were not properly segregated between marketing division and risk management division • For clients referred internally by other subsidiaries of our Group, our asset management business unit did not perform a separate anti-money laundering assessment	• Our Group concurs with the suggestions and written records will be produced and maintained in future events of introducing new products and product assessment • Approval records by general manager on new investment products are documented and maintained • New staff has been appointed to take up the duties of risk management division to ensure duties are properly segregated • Our asset management business unit will perform a separate anti-money laundering assessment for clients referred by other subsidiaries of our Group

	Key area of concern	Area of business operation	Findings	Remedial actions taken
(iv)	Revenue Management: proprietary trading	Internal policies	• Written operation manual for our proprietary trading business segment was not comprehensive enough to specify the approval authorities within our proprietary trading business segment, and the reporting frequencies and contents to the management	• Proprietary trading operation manual is enhanced to include the approval authorities within our proprietary trading business segment, and the reporting frequencies and contents to the management
(v)	Revenue Management: loans and financing	Internal policies	• Certain credit risk management procedures including the annual review of outstanding loans, managing collaterals and guarantee were not documented in the written manual for our money lending business	• Money lending operation manual is enhanced to include the annual review of outstanding loans, managing collaterals and guarantee
(vi)	General computer controls	Financial information technology systems	• System backup and restore environment were not extended to our Group's accounting system	• System backup and restore environment is created and extended to our Group's accounting system

A follow-up review was performed by the Internal Control Consultant from April to May 2016. Our Directors are satisfied with the implementation of remedial actions as suggested by the Internal Control Consultant, save for actions that may only be implemented upon [**REDACTED**].