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## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

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### OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the [REDACTED] and the [REDACTED], Industrial Securities, Industrial Securities (Hong Kong) and China Industrial Securities International Holdings will control more than 30% of our issued share capital, irrespective of whether the [REDACTED] is exercised partially or fully, or at all, and hence, for the purpose of the GEM Listing Rules, will continue to be our Controlling Shareholders. For further information on the shareholding of our Controlling Shareholders, please refer to the section headed “Substantial Shareholders” in this document. Each of the Controlling Shareholders confirms that it does not hold or conduct any business which competes, or is likely to compete, either directly or indirectly, with our business upon [REDACTED]. As at the Latest Practicable Date, China Industrial Securities International Holdings is a holding company without any business operation and the only operation of Industrial Securities (Hong Kong) is the service provision business carried out by Industrial Securities (Shenzhen).

The principal business of Industrial Securities includes securities brokerage, securities investment consulting, financial advisory services in relation to securities trading and securities investment, securities underwriting and sponsorship, proprietary trading, margin finance, distribution of securities investment funds, providing intermediary services for futures companies and distribution of financial products in the PRC.

For details of the service provision arrangement between Industrial Securities (Shenzhen) and our Company, please refer to the section headed “Connected transactions – Non-exempt continuing connected transaction – Service agreement” in this document. For details of the relationship between Industrial Securities, a company listed on the Shanghai Stock Exchange and its own business operations, and our Group with respect to business competition, please refer to the paragraph headed “Competing Business” in this document.

Rather than seeking for a dual [REDACTED] of Industrial Securities Group as a whole, it is expected that the [REDACTED] will bring the following direct benefits to our Group:

1. the independent [REDACTED] of our Group would allow us to gain direct access to the international capital market for equity financing to fund our existing operations and future expansion as and when required, thereby accelerating our expansion and improving our operating and financial performance, which in turn will provide better reward to our Shareholders;
2. through the [REDACTED], our Group will assume a significant role in the internationalisation of the Industrial Securities Group under the “Industrial Securities International” brand name;
3. the [REDACTED] will allow our management team and Industrial Securities’ management team to focus more effectively on their respective core businesses with a clearly delineated business objective (with Industrial Securities focused on the PRC market and the Group focused on the Hong Kong market) and improve our Group’s ability to recruit, motivate (for example through the Employee Share Participation Scheme) and retain key management personnel as well as to expediently and effectively capitalise on any business opportunities in the spin-off business that may arise; and

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4. as a result of the corporate governance structure and the internal control mechanisms that were put in place as a result of the [REDACTED], the operational and financial transparency of our Group is expected to be improved as a whole. The improvements in clarity on the business and financial status of our Group are expected to help us to build investor confidence in forming investment decisions based on their assessment of the performance, management, strategy, risks and returns of our Group.

### INDEPENDENCE OF OUR GROUP

In the opinion of our Directors, our Group is capable of carrying on our businesses independently of, and does not place undue reliance on, the Controlling Shareholders, their respective associates or any other parties, taking into account the following factors:

#### (i) Financial independence

Our Group has an independent financial system and makes financial decisions according to our own business needs. The amounts due from our Controlling Shareholder will be fully settled before [REDACTED]. We have sufficient capital to operate our business independently, and have adequate internal resources, including the [REDACTED] from the [REDACTED], to support our daily operations.

We had entered into several term loan facilities with several banks for our business purpose. Industrial Securities provided guarantees and comfort letters to the banks for such facilities. We had applied to the said banks that the said guarantees and comfort letters provided by Industrial Securities to be released and revoked upon our Company obtaining the approval in principle in respect of our [REDACTED] application from the Stock Exchange or the [REDACTED] of our Shares on the Stock Exchange. By 6 June 2016, all the said banks have provided consents in this regard. As at the Latest Practicable Date, all guarantees and comfort letters provided by the Controlling Shareholders in respect of the liabilities of the Group will be released before the [REDACTED].

In light of the above, our Group is able to independently obtain sufficient financial resources for our daily operation. We are financially independent of our Controlling Shareholders and their respective associates. We have a strong credit profile to support our daily operations.

#### (ii) Operational independence

We have established our own organisational structure, and each department is assigned to specific areas of responsibilities. Our Group is able to operate independently from our Controlling Shareholders after the [REDACTED]. Our Group has also established a set of internal control policy to facilitate the effective operation of our business.

Our Group entered into a service agreement with Industrial Securities (Shenzhen) on 27 September 2016, pursuant to which the Industrial Securities (Shenzhen) agreed to provide various consultancy services to our Group. For details of this agreement, please refer to the

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section headed "Connected Transactions" in this document. The Company considers that the services currently provided by Industrial Securities (Shenzhen) could be handled by the Group itself and thus there is no reliance on Industrial Securities (Shenzhen) for the services provided under such agreement. However, as labour costs are comparatively lower in the PRC than in Hong Kong and our operating costs will be increased significantly if our employees are required to travel frequently to the PRC for collecting various information, including but not limited to site inspections and industry observation tours, thus, the Company considers the entering into such agreement as a cost effective and efficient way for the provision of consultancy services to our Group. Industrial Securities (Shenzhen) simply serves as a service provider of our Group.

Other than the service agreement mentioned above and the transactions entered into by our Group as set out in the section headed "Connected Transactions" in this document, no services or facilities are intended to be provided to our Group by our Controlling Shareholders and/or their associates subsequent to the [REDACTED].

The employees of our Controlling Shareholders have, in the past, referred to us enquiries made regarding providers of financial services in Hong Kong. These potential clients may or may not be existing clients of our Controlling Shareholders. However, none of the Controlling Shareholders has the obligation or duty to refer any client to the Group and the Group is under no duty to accept any such referred potential client as its own client. For each client of the Group, the operational team of the Group provides the same quality of service and independent efforts to secure such client. For the year ended 31 December 2014, there were 880 new brokerage clients which were referred to the Group by the Controlling Shareholders whom in aggregate contributed approximately HK\$6.5 million of commission income and interest income, representing approximately 5.4% of the Group's revenue for the year ended 31 December 2014. For the year ended 31 December 2015, there were 741 new brokerage clients which were referred to the Group by the Controlling Shareholders whom in aggregate contributed approximately HK\$9.7 million of commission income and interest income, representing approximately 2.7% of the Group's revenue for the year ended 31 December 2015. For the three months ended 31 March 2016, there were 66 new brokerage clients which were referred to the Group by the Controlling Shareholders whom in aggregate contributed approximately HK\$0.7 million of commission income and interest income, representing approximately 0.8% of the Group's revenue for the three months ended 31 March 2016.

Accordingly, even though referrals by the Controlling Shareholders represented one of the sources of business opportunities in the Group's day-to-day operation, the Group's business and financial performance did not and do not rely on the referral of clients by the Controlling Shareholders, the contribution of which to the total revenue during the Track Record Period being insignificant. Save as disclosed above, during the Track Record Period, the Controlling Shareholders did not referred other businesses to the Group.

During the Track Record Period, 20.4%, 15.4% and 15.7% of our active accounts overlapped with those of Industrial Securities. Such overlapping accounts were all brokerage accounts. Such overlapping accounts in aggregate contributed HK\$5.0 million, HK\$7.3 million and HK\$1.0 million, representing 4.2%, 2.0% and 1.3%, respectively, of the total revenue of the Group during the Track Record Period. We are of the view that the number of overlapping customers is not an indicative measurement of the Group's reliance on Industrial Securities, the contribution of which to the total revenue during the Track Record Period being insignificant.

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In addition, we have an independent management team to handle our operations. We have obtained all necessary licenses for our business operation and we have sufficient operational capacity in terms of capital and employees to operate independently from the Controlling Shareholders. The Group has established its own know-your-client procedures, account opening and risk assessment for all of its potential clients, irrespective of whether such potential clients are referred to the Group by the Controlling Shareholders. All potential clients are subject to the know-your-client procedures of the Group and are required to sign the relevant client agreement(s) with the Group, before setting up any client accounts with the Group. The Group’s internal control measures in respect of risk management for potential clients include (but are not limited to) assessments of credit worthiness, checking clients against lists of politically exposed persons, and prior to signing the client agreement(s) with potential clients, the Group’s staff also explain the terms of such agreement, including discussion of the relevant risks involved. The Group has its own independent operational procedures and sales team for serving its clients, developing and securing the business relationship with such clients and handling the business transactions with them.

### (iii) Management independence

Our Company maintains an independent Board to oversee our Group’s business. Our Board is responsible for considering and approving the overall business plans and strategies of our Group, monitoring the implementation of these plans and strategies, and the general management of our Company. Our Group has an independent management team, which is led by our executive Directors and a team of senior managers with substantial experience and expertise in our business, to implement our Group’s policies and strategies.

Our Board consists of 8 Directors, comprising 3 executive Directors, 2 non-executive Directors and 3 independent non-executive Directors. Our senior management team consists of 8 members. Pursuant to the Articles of the Company, the current Board may, by majority, nominate and resolve to approve the appointment of Directors. Industrial Securities, as our Controlling Shareholder, has control over our Board. Industrial Securities is expected to continue to have control over our Company, the operating results of our Company is expected to be consolidated in the financial statements of Industrial Securities immediately upon [REDACTED]. Our Company has maintained and will maintain our management independence, with full rights to make all decisions on, and to carry out, our own business operation independently. The key positions held by our non-executive Directors and executive Directors within the Industrial Securities Group have been set out in their respective biography in the section headed “Directors, Senior Management and Staff”. As at the Latest Practicable Date the following table sets out the overlapping Directors’ and senior management’s positions in our Controlling Shareholders and their respective responsibilities:

Name	Position in the Company <sup>Note 1</sup>	Industrial Securities		Industrial Securities (Hong Kong)		CISI Holdings	
		Position	Responsibilities	Position	Responsibilities <sup>Note 2</sup>	Position	Responsibilities <sup>Note 3</sup>
Mr. Lan Rong	Non-executive Director and Chairman of the board of directors	Chairman of the board of directors	Strategic development of the Industrial Securities Group	Chairman of the board of directors	Strategic development of the Industrial Securities (Hong Kong)	Director	Strategic development of the CISI Holdings group

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Name	Position in the Company <sup>Note 1</sup>	Industrial Securities (Hong Kong)				CISI Holdings	
		Position	Responsibilities	Position	Responsibilities <sup>Note 2</sup>	Position	Responsibilities <sup>Note 3</sup>
Ms. Zhuang Yuanfang	Non-executive Director	Deputy president	Assisting in the overall management of the overseas operations of the Industrial Securities Group	Director	Monitoring progress towards achieving objectives	Director	Monitoring progress towards achieving objectives
Mr. Huang Jinguang	Executive Director, Chief Executive Officer	Nil	Nil	Director and Chief Executive Officer	Management of the operations of Industrial Securities (Hong Kong)	Director	The management of CISI Holdings
Mr. Wang Han	Deputy Chief Executive Officer	Deputy chief manager and chief macro-economic analyst of the research division	Managing the overseas operations of the research division, conducting macro-economic analysis	Deputy chief executive officer	not applicable	Nil	Nil

*Notes:*

- For details of the responsibilities of the Directors and senior management members in the Company, please refer to the section headed “Directors, Senior Management and Staff”.
- Due to the reduction of business and operation scope of Industrial Securities (Hong Kong) following the Reorganisation, the prior duties associated with the officer titles of Mr. Huang and Mr. Wang Han have become obsolete.
- CISI Holdings is a holding company without business operation.

Our non-executive Directors and executive Directors hold positions in Industrial Securities Group, while our executive Directors’ primary job is the directorship in our Company. As at the Latest Practicable Date, save the positions in our Group, only Mr. Huang Jinguang, being one of our executive Directors, holds directorship in Industrial Securities (Hong Kong) and CISI Holdings in the Industrial Securities Group. Industrial Securities (Hong Kong) was the immediate holding company of the members of our Group before the Reorganisation and CISI Holdings is a holding company without business operation. Our Board is of the view that Mr. Huang Jinguang’s role with the Industrial Securities Group are beneficial to our Company, as his presence with our Company will ensure the continuity and stability of our operation and their individual experiences are valuable to the strategic development of our Company.

Furthermore, each of our Directors is aware of his/her fiduciary duties as a director which require, among other things, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest to exist. In the event that there is a potential conflict of interest arising from any transaction to be entered into between our Group and our Directors or their respective associates, such interested Director(s) shall abstain from voting at the relevant meeting of the Board in respect of such transactions and shall not be counted in the quorum. In the event that

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the overlapping Directors between the Company and the Controlling Shareholders are required to abstain from voting in any event of conflict of interest, the Board will still be able to function efficiently as the Board consists of two executive Directors and three independent non-executive Directors (out of eight Directors in the Board) who do not hold any position in our Controlling Shareholders. None of our independent non-executive Director is interested in any Share of our Company or our Controlling Shareholders.

### **COMPETING BUSINESS**

The Controlling Shareholders and our Directors do not have any interest in a business apart from our Group's business which competes or is likely to compete, directly or indirectly, with our Group's business, and would require disclosure pursuant to Rule 11.04 of the GEM Listing Rules.

Industrial Securities, Industrial Securities (Hong Kong) and China Industrial Securities International Holdings, each of whom a Controlling Shareholder (each, a "**Covenantor**" and together, the "**Covenantors**"), either operate in the PRC or are investment holding entities without business operation, whilst our Group is operating in Hong Kong. Given the nature of the businesses the Covenantors and our Group respectively carry on, each of us need to obtain licenses from the respective regulatory authorities of the jurisdiction in which we respectively operate, and no one can legally carry on such regulated businesses without obtaining relevant licenses in that jurisdiction.

As at the Latest Practicable Date, the Covenantors do not possess any license in Hong Kong to carry on the same businesses as we do. On the other hand, our Group has not obtained any license in the PRC to carry on same businesses as they do.

As at the Latest Practicable Date, due to the clear territory delineation of the businesses of our Group and the Covenantors which results from the regulatory requirements in Hong Kong and the PRC, the Company is of the view that there is no competition between the business of our Group with those of the Covenantors. Although there is clear delineation between the businesses of our Group and the Covenantors, certain customers may be able to choose between the financial services offered by our Group and the Covenantors. Accordingly, our Group and the Covenantors are somehow competing for the financial resources in the market as a whole. However, this should not be strictly viewed as the existence of common customer base or to a larger extent a direct competition between the two parties because the services provided by the Group and the Covenantors are different in nature and the customers can choose the services based on their own investing performance in terms of risk and benefit and the availability of such services to them. Further, customers should not be used as a basis to determine competition of business between our Group and the Covenantors. For example, customers can have trading accounts with our Group and with the Covenantors at the same time, while the services provided to the customers are different.

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Our Group and the Covenantors operate in different jurisdictions and the business and services they are permitted to provide require licenses issued by the respective regulatory authorities of the jurisdiction in which they respectively operate, the Directors believe that the separation of jurisdiction and regulatory authorities between the PRC and Hong Kong have provided a reasonable basis to delineate the business between our Group and the Covenantors. However, considering the Shanghai – Hong Kong Stock Connect and the future Shenzhen – Hong Kong Stock Connect, the competition landscape between our Group and the Covenantors will be different, the amount of Southbound investment from Industrial Securities remain relatively small as compared to its total turnover. During the two years ended 31 December 2015 and the three months ended 31 March 2016, the Southbound investment through Industrial Securities Group through Shanghai – Hong Kong Connect amounted to RMB288.8 million (equivalent to approximately HK\$341.2 million), RMB7,327.9 million (equivalent to approximately HK\$8,658.6 million) and RMB833.2 million (equivalent to approximately HK\$984.5 million), respectively, which represented less than 1% of its securities brokerage trading turnover for the corresponding period. Our Group recorded northbound Investment through the Shanghai-Hong Kong Stock Connect for the two years ended 31 December 2015 and the three month ended 31 March 2016 which amounted to approximately HK\$398.3 million, HK\$3,716 million and HK\$950.6 million respectively, which represented 2.22%, 3.89% and 7.27% of our total securities brokerage trading turnover for the corresponding periods. As Shenzhen – Hong Kong Stock Connect to a large extent is similar to the arrangement of Shanghai – Hong Kong Stock Connect, and the eligible stock will increase from 318 to 417, we believe there will not be a significant change in the amount to Southbound investment from clients of Industrial Securities. Notwithstanding this, our Group's interests would be properly safeguarded as far as the business between the Group and the Covenantors can be delineated by the separation of jurisdiction in which they offer different services and the different regulatory requirements imposed in the PRC and Hong Kong.

### DEED OF NON-COMPETITION

In order to avoid any potential competition between the Covenantors and our Group, the Covenantors executed a deed of non-competition (the "Deed") on 28 September 2016 in favour of us (for ourselves and for the benefit of each member of our Group). Pursuant to the Deed, during the period that the Deed remains effective, each of the Covenantors irrevocably and unconditionally undertakes with us (for ourselves and for the benefit of each member of our Group) that it shall not, and shall procure its associates or companies controlled by it (other than members of our Group) not to, directly or indirectly engage, participate in or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of any member of our Group in Hong Kong or any other area in which our Group carries on business, save for the holding of not more than 5% shareholding interests (individually or with its associates) in any company listed on a recognised stock exchange and at any time the relevant listed company shall have at least one shareholder (individually or with its associates, if applicable) whose shareholding interests in the relevant listed company is higher than that of the relevant Covenantor (individually or with its associates).

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When any business opportunities which will or may compete with the business of our Group arise, the respective Covenantor(s) shall, and shall procure their respective associates to, give us notice in writing and we shall have a right of first refusal to take up such business opportunities. We shall, within a period of 30 days (which may be extended to 60 days if requested by all of our independent non-executive Directors, or such longer period if we are required to complete any approval procedures as set out under the GEM Listing Rules from time to time), inform the Covenantor(s) whether we will exercise the right of first refusal or not. We shall only exercise the right of first refusal upon the approval of all our independent non-executive Directors (who do not have any interest in such proposed transactions). The relevant Covenantor(s) and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of the Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of our independent non-executive Directors for considering whether or not to exercise the right of first refusal.

The undertakings mentioned above are conditional upon the [REDACTED] granting the [REDACTED] of, and permission to deal in, our Shares on the Stock Exchange and all conditions precedent under the [REDACTED] having been fulfilled (or where applicable, waived), and the [REDACTED] not having been terminated in accordance with their respective terms. If any such condition is not fulfilled on or before the date falling 30 days after the date of this document, the Deed shall become null and void and cease to have any effect whatsoever and no party shall have any claim against the other under the Deed.

The Deed shall terminate on the earliest of (i) the date on which the Controlling Shareholders and their associates cease to be interested in 30% (or such other amount as may from time to time be specified in the GEM Listing Rules as being the threshold for determining a controlling shareholder of a company) or more of the entire issued share capital of our Company; or (ii) the date on which our Shares cease to be listed and traded on the Stock Exchange (except for temporary suspension of trading of our Shares on the Stock Exchange due to any reason).

In addition, the Covenantors have undertaken to us:

- (i) to provide all information necessary for the evaluation of the enforcement of the Deed as requested by our Company from time to time; and
- (ii) to make an annual confirmation as to compliance with its undertaking under the Deed for inclusion in the annual report of our Company.

Each of the Controlling Shareholders undertakes to our Company that it would, during the term of the Deed, indemnify and keep indemnifying our Company and our Group against any loss suffered by our Company or any members of our Group (as relevant) arising out of any breach of any of its undertaking under the Deed.



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### **CORPORATE GOVERNANCE**

Our Board will consist of not less than one-third of independent non-executive Directors to ensure that our Board is able to effectively exercise independent judgment in its decision-making process and provide independent advice to our Shareholders. We will ensure that our independent non-executive Directors are of sufficient calibre, knowledge and experience, have no connection or relationship with us or our connected persons and will carry weight in our decision-making process.

We have adopted the following corporate governance measures to manage any potential conflicts of interest arising from any future potential competing businesses and to safeguard the interests of our Shareholders:

- Our Controlling Shareholders will make an annual declaration on compliance with their undertakings under the Deed in the annual report of our Company;
- Our independent non-executive Directors will review, at least on an annual basis, the compliance of our Controlling Shareholders with the Deed; and
- We will make disclosures in our annual reports or by way of announcements regarding the review conducted by our independent non-executive Directors relating to such compliance with and enforcement of the Deed including, among others, any new business opportunity turned down by our Company under the Deed and basis thereon.

Based on the above, our Board is satisfied that there are sufficient and effective preventive measures to manage conflicts of interest and our Board is able to operate independently of our Controlling Shareholders.