You should read this section in conjunction with our consolidated financial information, including the notes thereto, as set out in "Appendix I – Accountants' Report" to this document. The consolidated financial information has been prepared in accordance with HKFRSs.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include those discussed in "Risk Factors".

OVERVIEW

We are an integrated and full-service securities group based in Hong Kong. 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 consolidating our client base, 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 Chinese and foreign investors, we will continue to leverage Hong Kong to develop new clients and deliver new products and professional services that could create value for new and potential clients.

Our business lines include:

- ***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. In addition, since December 2015, we have offered 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.

We experienced rapid growth during the Track Record Period. For each of the two years ended 31 December 2014 and 2015, our total revenue amounted to HK$120.0 million and HK$364.3 million, respectively, representing a growth rate of 203.6%, while our net profit for the years ended 31 December 2014 and 2015 amounted to HK$18.8 million and HK$50.5 million, respectively, representing a growth rate of 169.0%.

For the three months ended 31 March 2015 and 2016, our total revenue amounted to HK$53.8 million and HK$79.8 million, respectively, representing a growth rate of 48.2% while our net profit for the three months ended 31 March 2015 and 2016 amounted to HK$4.9 million and HK$5.8 million, respectively, representing a growth rate of 17.5%.

BASIS OF PRESENTATION

Our Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands on 21 July 2015. In preparation of the [**REDACTED**], we underwent the Reorganisation, as detailed in "History, Reorganisation and Group Structure". As a result of the Reorganisation, our Company became a holding company of the subsidiaries comprising our Group.

The financial information relating to our Group has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the HKICPA. All HKFRSs effective for the accounting period commencing from 1 January 2015 have been adopted by our Group in the preparation of the financial information contained in this document throughout the Track Record Period. All intra-group transactions and balances have been eliminated on consolidation. For more information on the basis of presentation and preparation of the financial information included herein, see note 2 to the Accountants' Report in Appendix I for details.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and financial condition have been and will continue to be affected by a number of factors, including those set out below, some of which may not be within our control.

Performance of the Hong Kong and overseas markets

During the Track Record Period, our brokerage business and loans and financing business represented our major source of revenue. These businesses are highly susceptible to the changes in financial market and economic conditions of Hong Kong, the PRC and overseas. Economic downturn or market volatility might adversely affect the investors' confidence in the securities market and might result in a prolonged period of sluggish market activities, as a result of which it might be difficult for us to maintain or achieve the same or higher level of commission and fee income from our brokerage business and interest income from our loans and financing business as before. Adverse development of the financial or economic conditions of Hong Kong, the PRC or overseas may result in the volatility of the stock market in Hong Kong, which might in turn lead to the decrease in the market value of the securities traded in the stock exchange in Hong Kong. A significant decline in the market value of the securities which are held by us as collateral will expose us to increasing market and credit risks of our margin clients and money lending clients.

In addition, substantially our business operations were carried out in Hong Kong during the Track Record Period. Therefore, our business, results of operations and prospects are highly susceptible to any development or change in government policies, as well as economic, social, political and legal developments in Hong Kong.

Competitions in the financial service industry

Competition in the financial service industry of Hong Kong is keen. According to Frost & Sullivan, up to 30 June 2016, there were 582 trading holders registered with the Stock Exchange and the competition in most of our business segments has been increasing in recent years due to entries of new participants. See "Industry Overview" for details.

Intense price competition on our service fees such as brokerage commission rates might result in the decrease in our total revenue and profitability. If we fail to maintain our competitive strengths and enlarge our client base, we may lose market share in our principal business segments which materially and adversely affects our results of operations and prospects.

Movement of interest rates

Interest rates may fluctuate due to changes in the global and local economic environment which may affect our business and profitability. Any increase in interest rate may affect investors' appetite to invest in the securities market and hence their demand for brokerage services and margin financing. Any increase in interest rates on our outstanding loans will increase our finance costs and may reduce our interest spread for our financing portfolio. Further, the Hong Kong Monetary Authority or other relevant authority to which the banks in Hong Kong are subject adopts any policy or measures that affect banks' ability to make available loans or facilities, our access to financing may be adversely affected. This may materially and adversely affect our business, financial condition and results of operations.

Changes in laws, rules and regulations governing the securities industry

The laws, rules, and regulations governing the securities industry may change from time to time that may affect our revenue and cost of operation. Any change in the laws, rules, or regulations may result in an increase in our cost of compliance or may require us to restrict its business activities or implementation of expansion plans, thereby materially and adversely affecting our results of operations and prospects.

Our service and product mix

We offer a wide array of services to our clients, with brokerage and loans and financing businesses as our business focus. Therefore, our historical financial results were significantly affected by the contribution of our brokerage and loans and financing businesses. As our products and services have become more diverse, we seek to expand our service scope and to optimise our service and products mix, that has higher growth potential and/or profitability. Since we seek to diversify our revenue sources by broadening our product and service offering, our results of operations and financial conditions could be adversely affected by any material change in our product or service mix as well as our ability to innovate new products and services, to transact business with new clients, to manage new asset class or to engage in new markets.

CRITICAL ACCOUNTING POLICIES AND CRITICAL ESTIMATES AND JUDGEMENT

We have identified certain accounting policies that are significant to the preparation of our Group's financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider: (i) our selection of critical accounting policies; (ii) the judgments and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions.

Our estimates and associated assumptions are based on our historical experience and other factors that are considered to be relevant. Our actual results has not deviated from our estimates. Our basis of estimate has not been changed and we believe that our basis of estimate will not be changed in the future.

Our significant accounting policies, estimates and judgements, which are important for an understanding of our financial condition and results of operations, are set forth in detail in notes 4 and 5 in section A of the Accountants' Report in Appendix I.

RESULTS OF OPERATIONS

The following table summarises the consolidated statements of profit or loss and other comprehensive income for the periods indicated:

	For the year ended 31 December		For the three months ended 31 March	
	2014	2015	2015	2016
	HK$	*HK$*	*HK$* *(unaudited)*	*HK$*
Revenue	120,001,758	364,324,168	53,815,010	79,766,999
Other income	4,365,712	3,865,371	644,239	957,221
Finance costs	(16,682,557)	(45,843,172)	(7,211,573)	(12,965,744)
Commission and fee expenses	(12,976,346)	(79,996,504)	(6,900,500)	(12,586,570)
Staff costs	(36,377,417)	(100,009,268)	(19,866,317)	(25,322,229)
Other operating expenses	(37,460,628)	(85,253,840)	(18,607,532)	(21,658,267)
[**REDACTED**] expenses	–	(1,598,329)	–	(2,871,675)
Other gains or losses	2,248,537	(7,419,313)	3,025,178	2,258,976
Profit before taxation	23,119,059	48,069,113	4,898,505	7,578,711
Taxation	(4,347,723)	2,434,920	34,973	(1,782,237)
Profit for the year/period	18,771,336	50,504,033	4,933,478	5,796,474

Revenue

During the Track Record Period, our revenue derived from the following principal activities: (i) brokerage services; (ii) loans and financing activities; (iii) investment banking activities; (iv) asset management; and (v) proprietary trading. We commenced wealth management business in December 2015 which contributed an insignificant amount of revenue to our total revenue. For each of the two years ended 31 December 2014 and 2015 and the three months ended 31 March 2015 and 31 March 2016, our revenue amounted to HK$120.0 million, HK$364.3 million, HK$53.8 million and HK$79.8 million, respectively, representing a year-on-year increase of 203.6% and a period-to-period increase of 48.2%.

The following table sets forth the breakdown of revenue by principal business activities for the periods indicated:

	For the year ended 31 December				For the three months ended 31 March			
	2014		2015		2015		2016	
Segment	*HK$*	*% of revenue*	*HK$*	*% of revenue*	*HK$* *(unaudited)*	*% of revenue*	*HK$*	*% of revenue*
Brokerage	45,292,039	37.7	175,164,396	48.1	20,537,634	38.2	23,915,615	30.0
Loans and financing	9,985,060	8.3	127,030,188	34.9	9,725,528	18.1	52,932,543	66.3
Investment banking	20,120,146	16.8	25,615,792	7.0	1,572,677	2.9	1,420,000	1.8
Asset management	1,177,536	1.0	7,068,319	1.9	939,673	1.7	1,498,841	1.9
Proprietary trading	43,426,977	36.2	29,445,473	8.1	21,039,498	39.1	–	–
Total:	120,001,758	100.0	364,324,168	100.0	53,815,010	100.0	79,766,999	100.0

Comparison between 31 March 2015 and 31 March 2016

Our revenue increased by HK$26.0 million or 48.2% to HK$79.8 million for the three months ended 31 March 2016 from HK$53.8 million for the three months ended 31 March 2015 which was mainly due to the increase in our income from loans and financing business of HK$43.2 million which was partially offset by the decrease in revenue from proprietary trading from HK$21.0 million to nil as we did not hold any investment under proprietary trading.

Comparisons between FY2014 and FY2015

Our revenue increased by HK$244.3 million or 203.6% to HK$364.3 million for the year ended 31 December 2015 from HK$120.0 million for the year ended 31 December 2014. The significant increase in our Group's revenue from 2014 to 2015 was mainly due to (i) the increase in our income from brokerage business of HK$129.9 million and (ii) the increase in our income from loans and financing business of HK$117.0 million.

Brokerage

The following table sets forth our income from brokerage for the periods indicated:

	For the year ended 31 December			For the three months ended 31 March		
	2014	**2015**	**Change**	**2015**	**2016**	**Change**
	HK$	*HK$*	*%*	*HK$*	*HK$*	*%*
				(unaudited)		
Commission and fee income from securities brokerage	23,957,212	115,595,417	382.5	10,588,110	17,519,367	65.5
Commission and fee income from futures and options brokerage	21,334,827	59,568,979	179.2	9,949,524	5,784,648	(41.9)
Insurance brokerage commission	–	–	–	–	611,600	–
Total:	45,292,039	175,164,396	286.7	20,537,634	23,915,615	16.4

Comparison between 31 March 2015 and 31 March 2016

Our income from brokerage business increased to HK$23.9 million for the three months ended 31 March 2016 from HK$20.5 million for the three months ended 31 March 2015. A majority of our commission and fee income from securities brokerage business for the three months ended 31 March 2015 and 2016 were derived from the trading activities in Hong Kong stock market. Our commission and fee income from securities brokerage increased to HK$17.5 million for the three months ended 31 March 2016 from HK$10.6 million for the three months ended 31 March 2015. Such increase was mainly due to the expansion of our sales force.

Most of our commission and fee income from futures and options brokerage for the three months ended 31 March 2015 and 2016 were derived from trading overseas products. Our commission and fee income from futures and options brokerage decreased to HK$5.8 million for the three months ended 31 March 2016 from HK$10.0 million for the three months ended 31 March 2015. Such decrease was mainly due to market volatility, leading to a decrease in trading transactions in futures markets during the period.

Insurance brokerage commission income was derived from our wealth management business, a new business commenced in December 2015. Our revenue from this new business is derived from the commission paid by insurance companies from insurance policies that we offered to our clients based on the size of yearly premium payment and the length of payment period by our clients. We have entered into agreements with 14 insurance providers and five pension investment scheme providers to offer their products to potential with management clients that suit their needs. We are also expanding our sales force for insurance brokerage to maximise our revenue.

Comparisons between FY2014 and FY2015

Our income from brokerage business increased to HK$175.2 million in 2015 from HK$45.3 million in 2014.

A majority of our commission and fee income from securities brokerage business in 2014 and 2015 were derived from the trading activities in Hong Kong stock market. Our commission and fee income from securities brokerage increased to HK$115.6 million in 2015 from HK$24.0 million in 2014. Such significant increase was mainly due to i) the surge in average daily turnover of Hong Kong stock market from HK$69.5 billion in 2014 to HK$105.6 billion in 2015; and ii) the increased in active account from 2,108 to 4,358 as a result of the expansion of our sales force of account executives from three to 43 in 2015.

The average brokerage commission rate charged by our Group decreased from 0.12% in 2014 to 0.10% in 2015 as we continued to attract new clients with higher net worth, higher trading frequency and higher trading volume, we offered them with more competitive commission rates to encourage trading on our Group's platform.

The trading volume for securities through our platform increased from HK$17.9 billion in 2014 to HK$95.6 billion in 2015, which was primarily due to the positive market sentiment for Hong Kong securities market in 2015 as well as more accounts opened in 2015. See "Industry Overview – Hong Kong securities, futures and options market overview" and "Business – Our business – Securities brokerage" for details.

Commission and fee income from futures and options brokerage represents brokerage commission charged by our Group on futures and options contracts traded. The commission charged varies according to the underlying assets and the exchange markets.

Most of our commission and fee income from futures and options brokerage in 2014 and 2015 were derived from overseas trading activities. Our commission and fee income from futures and options brokerage increased to HK$59.6 million in 2015 from HK$21.3 million in

2014. Such increase was mainly due to (i) our significant increase in trading transactions resulting from more active trading activities in futures markets, and (ii) the increase in the number of active futures brokerage accounts from 76 to 158 in 2015, partially offset by a decrease in our average brokerage commission rate charged for futures and options contracts as we continued to provide a market competitive commissions rate for the basic brokerage services offered to our clients.

Loans and financing

The following table sets forth our income from loans and financing business for the periods indicated:

	For the year ended 31 December			For the three months ended 31 March		
	2014	**2015**	**Change**	**2015**	**2016**	**Change**
	HK$	*HK$*	*%*	*HK$* (unaudited)	*HK$*	*%*
Interest income from margin financing	8,060,224	107,108,132	1,228.8	7,104,258	47,800,427	572.8
Interest income from money lending business	1,924,836	19,922,056	935.0	2,621,270	5,132,116	95.8
Total:	9,985,060	127,030,188	1,172.2	9,725,528	52,932,543	444.3

Comparison between 31 March 2015 and 31 March 2016

Our income from loans and financing business increased to HK$52.9 million for the three months ended 31 March 2016 from HK$9.7 million for the three months ended 31 March 2015.

Our interest income from margin financing increased to HK$47.8 million for the three months ended 31 March 2016 from HK$7.1 million for the three months ended 31 March 2015. The substantial increase was primarily due to (i) the expansion of our margin loan portfolio as evidenced by the increase in our average month-end margin finance loan balance from HK$615.8 million for the three months ended 31 March 2015 to HK$2,686.9 million for the three months ended 31 March 2016; (ii) the gradual expansion of our brokerage business with an increasing number of active accounts; and (iii) the significant increase of our Group's financial resources as a result of a series of capital injections.

Our interest and fee income from money lending business increased from HK$2.6 million for the three months ended 31 March 2015 to HK$5.1 million for the three months ended 31 March 2016. The increase was mainly due to stronger financing need from our clients and also our stronger funding capability.

Comparisons between FY2014 and FY2015

Our income from loans and financing business increased to HK$127.0 million for the year ended 31 December 2015 from HK$10.0 million for the year ended 31 December 2014.

Our interest income from margin financing increased to HK$107.1 million in 2015 from HK$8.1 million in 2014. The substantial increase was primarily due to (i) the larger demand for margin financing driven by positive market sentiment in 2015; (ii) the expansion of our brokerage business with an increasing number of active accounts; (iii) the expansion of our margin loan portfolio as evidenced by the increase in our average month-end margin finance loan balance from HK$204.5 million in 2014 to HK$1,622.0 million in 2015; and (iv) the expansion of our Group's financial resources as a result of a series of capital injections as more particularly disclosed in "History, Reorganisation and Group Structure" and the increase of our Group's aggregated banking facilities from HK$1,960 million in 2014 to HK$7,265 million in 2015. In addition, the average interest rate per annum we charged for margin loans increased from 4.7% in 2014 to 6.8% in 2015. We charged a higher average interest rate for margin loans in 2015 than in 2014 due to the stronger demand for margin loans.

Our interest and fee income from money lending business increased from HK$1.9 million in 2014 to HK$19.9 million in 2015. The increase was mainly due to stronger financing need from our clients and also our stronger funding capability as we secured more banking facilities as stated in the above paragraph. The average interest rate per annum we charged on clients for money lending increased from 6.3% in 2014 to 7.2% in 2015. We charged a higher average interest rate for money lending business in 2015 than in 2014 due to the stronger demand from the money lending market.

To manage the associated credit exposure arising from our loans and financing business, we adhered to the established policies regarding margin requirements, credit assessment and internal control procedures. We also require our client to provide sufficient collateral when we make the loans or advances except where we agree to provide unsecured loan for money lending client. The collaterals in most cases are in the form of Hong Kong listed securities. In certain case and subject to the approval of our risk management committee, we will accept securities listed on other recognised stock exchanges or marketable assets as collaterals. For details, see "Business – Risk management and internal control – Credit risks".

During the Track Record Period, we borrowed from banks to finance our loans and financing business. The weighted average effective interest rate per annum of our bank borrowings for the years ended 31 December 2014 and 2015 was 2.8% and 2.0%, respectively. As such, our Group profited from the interest spread between interest income of our loans portfolio and the interest expenses of our bank borrowings.

Investment banking

The following table sets forth our income from investment banking for the periods indicated:

	For the year ended 31 December			For the three months ended 31 March		
	2014	2015	Change	2015	2016	Change
	HK$	*HK$*	*%*	*HK$* (unaudited)	*HK$*	*%*
Commission on offering fund raising services	18,098,206	20,997,217	16.0	266,037	420,000	57.9
Sponsor fee income	–	2,400,000	–	–	1,000,000	–
Financial advisory fee income	2,021,940	2,218,575	9.7	1,306,640	–	(100.0)
Total:	20,120,146	25,615,792	27.3	1,572,677	1,420,000	(9.7)

Comparison between 31 March 2015 and 31 March 2016

Our income from investment banking business remained stable at HK$1.6 million for the three months ended 31 March 2015 and HK$1.4 million for the three months ended 31 March 2016. Sponsor fee income of HK$1.0 million was recognised for the three months ended 31 March 2016 due to one additional proposed listing application as the sponsor was engaged for the three months ended 31 March 2016 and no financial advisory fee income was recognised for the same period.

Comparisons between FY2014 and FY2015

Our income from investment banking business increased to HK$25.6 million for the year ended 31 December 2015 from HK$20.1 million for the year ended 31 December 2014, mainly due to (i) the increase in our commission on offering fund raising services, such as placing, underwriting and sub-underwriting; and (ii) the sponsor fees we charged on our clients in 2015.

A majority of our income from investment banking business in 2014 and 2015 was derived from our commission on placing, underwriting and sub-underwriting. Our commission on placing, underwriting and sub-writing increased from HK$18.1 million in 2014 to HK$21.0 million in 2015 as the total fund raising size of the placing, underwriting and sub-underwriting in which we were involved increased from HK$6.8 billion to HK$65.9 billion. In addition, our sponsor fee income increased from nil in 2014 to HK$2.4 million in 2015 because of the new engagement for proposed listing transactions in 2015. See "Business – Investment banking – Listing sponsorship" for details.

Asset management

The following table sets forth our income from asset management for the periods indicated:

	For the year ended 31 December			For the three months ended 31 March		
	2014	**2015**	**Change**	**2015**	**2016**	**Change**
	HK$	*HK$*	*%*	*HK$*	*HK$*	*%*
				(unaudited)		
Asset management fee income	808,536	5,534,168	584.5	758,673	1,036,499	36.6
Investment advisory fee income	369,000	1,534,151	315.8	181,000	462,342	155.4
Total:	1,177,536	7,068,319	500.3	939,673	1,498,841	59.5

Comparison between 31 March 2015 and 31 March 2016

Our income from assets management business increased to HK$1.5 million for the three months ended 31 March 2016 from HK$0.9 million for the three months ended 31 March 2015. A majority of our income from assets management business for the three months ended 31 March 2015 and 2016 was derived from our management fee income, which increased to HK$1.0 million in 2016 from HK$0.8 million in 2015. The increase was primarily due to the increase in the scale of asset management business in terms of AUM for the three months ended 31 March 2016.

We recorded an increase in our investment advisory fee income to HK$0.5 million for the three months ended 31 March 2016 from HK$0.2 million for the three months ended 31 March 2015. The increase was primarily due to the increase in the number of clients we served during the three months ended 31 March 2016.

Comparisons between FY2014 and FY2015

Our income from assets management business increased to HK$7.1 million for the year ended 31 December 2015 from HK$1.2 million for the year ended 31 December 2014.

A majority of our income from assets management business in 2014 and 2015 was derived from our management fee income, which increased to HK$5.5 million in 2015 from HK$0.8 million in 2014. The substantial increase was primarily due to the increase in the scale of asset management business in terms of AUM from HK$817.1 million in 2014 to HK$1,664.0 million in 2015.

Our investment advisory fee income was derived from the investment advisory services provided to external fund managers. We recorded an increase in such income to HK$1.5 million in 2015 from HK$0.4 million in 2014. The substantial increase was primarily because (i) we started to charge fund investment advisory services fee in May 2014; and (ii) the number of clients we served increased in 2015.

Proprietary trading

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

	For the year ended 31 December			For the three months ended 31 March		
	2014	**2015**	**Change**	**2015**	**2016**	**Change**
	HK$	*HK$*	*%*	*HK$*	*HK$*	*%*
				(unaudited)		
Interest income from financial assets at FVTPL	29,682,335	12,902,976	(56.5)	8,817,354	–	(100.0)
Dividend income from financial assets at FVTPL	–	2,063,592	–	–	–	–
Net realised gain on financial assets at FVTPL	6,358,528	21,865,019	243.9	19,267,081	–	(100.0)
Net unrealised gain (reversal of prior year unrealised gain) on financial assets at FVTPL	7,386,114	(7,386,114)	–	(7,044,937)	–	(100.0)
Total:	43,426,977	29,445,473	(32.2)	21,039,498	–	(100.0)

We engage in the trading of debt and equity securities through proprietary funding for our own account. Income from proprietary trading represents the interest income from debt securities, dividend income from equity securities and net gain from trading of financial assets. Income from proprietary trading amounted to HK$43.4 million, HK$29.4 million, HK$21.0 million and nil for the years ended 31 December 2014 and 2015 and for the three months ended 31 March 2015 and 2016, respectively.

Comparison between 31 March 2015 and 31 March 2016

Our net gain from proprietary trading (including interest income and dividend income) decreased from HK$21.0 million for the three months ended 31 March 2015 to nil for the three months ended 31 March 2016. After the liquidation of our position in debt securities in November 2015, we did not make new investment under this segment up to 31 March 2016.

Comparisons between FY2014 and FY2015

Our income from proprietary trading decreased from HK$43.4 million in 2014 to HK$29.4 million in 2015. The average return from proprietary trading decreased from 6.9% for the year ended 31 December 2014 to 4.4% for the year ended 31 December 2015. In May 2015, we closed our long position in equity investment and also a majority of our position in debt securities which resulted in a decrease in interest income from financial assets at FVTPL from HK$29.7 million in 2014 to HK$12.9 million in 2015. We liquidated our remaining position in debt securities in November 2015. The disposal of our entire portfolio in debt securities also led to the reversal of prior year unrealised gain by HK$7.4 million. As a result of the above transactions, net realised gain of HK$21.9 million was recognised, which led to an increase of HK$15.5 million in net realised gain on financial assets at FVTPL as compared with the net realised gain in 2014.

Other income

The following table sets forth other income for the periods indicated:

	For the year ended 31 December			For the three months ended 31 March		
	2014	**2015**	**Change**	**2015**	**2016**	**Change**
	HK$	*HK$*	*%*	*HK$*	*HK$*	*%*
				(unaudited)		
Interest income from financial institutions	2,415,552	3,277,888	35.7	603,027	886,738	47.0
Sundry income	1,950,160	587,483	(69.9)	41,212	70,483	71.0
Total:	4,365,712	3,865,371	(11.5)	644,239	957,221	48.6

Other income amounted to HK$4.4 million, HK$3.9 million, HK$0.6 million and HK$1.0 million for the years ended 31 December 2014 and 2015, and for the three months ended 31 March 2015 and 2016, respectively. Other income is comprised of the interest income from financial institutions and sundry income. Interest income from financial institutions represents the interest income earned from deposit in banks and other financial institutions.

Finance costs

Finance costs comprise mainly interest charges on our bank borrowings. Finance costs amounted to HK$16.7 million and HK$45.8 million for the years ended 31 December 2014 and 2015, and HK$7.2 million and HK$13.0 million for the three months ended 31 March 2015 and 2016, respectively.

Comparison between 31 March 2015 and 31 March 2016

Our finance costs increased by HK$5.8 million or 79.8% to HK$13.0 million for the three months ended 31 March 2016 from HK$7.2 million for the three months ended 31 March 2015. The increase in our finance costs was mainly due to the increase in the scale of our bank borrowings.

Comparisons between FY2014 and FY2015

Our finance costs increased by HK$29.1 million or 174.8% to HK$45.8 million for the year ended 31 December 2015 from HK$16.7 million for the year ended 31 December 2014. The weighted average effective interest rate of our bank borrowings for the years ended 31 December 2014 and 2015 was 2.8% and 2.0%, respectively. The increase in our finance costs from 2014 to 2015 was mainly due to the increase in the scale of our bank borrowings, which increased from HK$986.5 million as at 31 December 2014 to HK$2,416.1 million as at 31 December 2015.

Commission and fee expenses

The following table sets forth commission and fee expenses for the periods indicated:

	For the year ended 31 December			For the three months ended 31 March		
	2014	**2015**	**Change**	**2015**	**2016**	**Change**
	HK$	*HK$*	*%*	*HK$* (unaudited)	*HK$*	*%*
Sales commission paid to account executives	133,392	37,937,918	28,340.9	1,613,026	7,071,169	338.4
Commission and fee paid to brokers (note)	10,997,746	25,050,666	127.8	4,610,384	3,286,938	(28.7)
Others	1,845,208	17,007,920	821.7	677,090	2,228,463	229.1
Total:	12,976,346	79,996,504	516.5	6,900,500	12,586,570	82.4

Note: Brokers refer to external brokers for securities and futures traded on other overseas exchanges

Comparison between 31 March 2015 and 31 March 2016

Our commission and fee expenses increased to HK$12.6 million for the three months ended 31 March 2016 from HK$6.9 million for the three months ended 31 March 2015. The reason was mainly due to the increase in sales commission paid to account executives from HK$1.6 million for the three months ended 31 March 2015 to HK$7.1 million for the three months ended 31 March 2016 as a result of our significant increase in the number of our account executives, and partially offset by the decrease in our commission and fee paid to external brokers as a result of the decrease in trading transactions with respect to futures and options for the three months ended 31 March 2016 compared to the three months ended 31 March 2015.

Comparisons between FY2014 and FY2015

Our commission and fee expenses increased to HK$80.0 million for the year ended 31 December 2015 from HK$13.0 million for the year ended 31 December 2014. The sales commission paid to account executives represents trading executed under our securities brokerage business and futures and options business. The commission paid to external brokers mainly represents trading executed in non-Hong Kong markets. The significant increase in our commission and fee expenses in 2015 was primarily due to the increase in transactions in our securities brokerage business as well as the futures and options business which was evidenced by (i) the increase in sales commission paid to our account executives of HK$37.8 million as a result of the expansion of our brokerage business and additional 40 account executives hired in 2015; and (ii) the increase in commission paid to external brokers of HK$14.1 million. The increase in commission paid to such external brokers was in line with the increase in our commission and fee income from securities and futures and options brokerage.

Others include custodian fees, scrip fee, clearing fee and other handling fee, which are ancillary to our brokerage business. The increase was primarily due to the increase in scrip fee charged by the Hong Kong stock exchange as a result of our clients' stock portfolio expansion.

Staff costs

Our staff costs mainly represent the salaries and bonuses paid and payable to directors and employees. Our staff cost increased by HK$63.6 million or 174.9% to HK$100.0 million for the year ended 31 December 2015 from HK$36.4 million for the year ended 31 December 2014. Our staff cost increased from HK$19.9 million for the three months ended 31 March 2015 to HK$25.3 million for the three months ended 31 March 2016.

Comparison between 31 March 2015 and 31 March 2016

The increase of HK$5.5 million in staff costs was mainly due to an increase in salaries, commission and bonuses as a result of the increase in numbers of employees and higher bonuses paid to our employees for better financial performance of previous year for the three months ended 31 March 2016 compared to the same period in 2015.

Comparisons between FY2014 and FY2015

The increase of HK$63.6 million in our staff costs from 2014 to 2015 was mainly due to (i) an increase in our salaries and bonuses to maintain the competitiveness of our remuneration package and to incentivise our staff; and (ii) an increase in our number of employees from 89 as at 31 December 2014 to 125 as at 31 December 2015, of which a majority of them joined our Group in the second half of 2014. Bonuses are paid with reference to our Group performance.

Other operating expenses

The following table sets forth a breakdown of our other operating expenses for the periods indicated:

	For the year ended 31 December			For the three months ended 31 March		
	2014	2015	Change	2015	2016	Change
	HK$	*HK$*	*%*	*HK$*	*HK$*	*%*
				(unaudited)		
Operating lease payments	7,464,424	19,293,397	158.5	4,593,682	4,916,972	7.0
Maintenance fee	3,462,040	13,307,105	284.4	3,029,605	2,609,486	(13.9)
Promotion expenses	1,349,571	7,367,028	445.9	203,650	978,018	380.2
Depreciation of property and equipment	2,975,275	6,681,403	124.6	1,509,380	1,876,654	24.3
Information expenses	922,637	4,548,724	393.0	870,862	1,134,691	30.3
Bank charges	1,988,844	5,578,564	180.5	1,419,478	930,584	(34.4)
Entertainment	3,005,646	4,852,121	61.4	515,236	725,221	40.8
Telephone and postage	1,474,051	3,734,758	153.4	1,017,482	676,276	(33.5)
Auditor's remuneration	834,477	734,711	(12.0)	115,938	149,438	28.9
Legal and professional fee	467,594	1,086,110	132.3	–	415,583	–
Amortisation of intangible assets	370,972	652,344	75.8	160,447	249,702	55.6
CCASS expenses	314,150	895,300	185.0	268,580	69,090	(74.3)
Administrative and other expenses	3,402,609	3,664,708	7.7	767,175	669,687	(12.7)
Transportation	2,658,242	2,965,789	11.6	350,061	181,764	(48.1)
Property management fee	1,145,522	2,189,874	91.2	547,469	586,829	7.2
Stamp duty	–	–	–	–	2,816,343	–
Others *(note)*	5,624,574	7,701,902	36.9	3,238,487	2,671,929	(17.5)
	37,460,628	85,253,840	127.6	18,607,532	21,658,267	16.4

Note: Others include utilities and other professional fees, etc.

Our other operating expenses consist primarily of operating lease payments, maintenance fee, depreciation of property and equipment, bank charges, promotion expenses and information expenses. Operating lease payments mainly related to rentals payable by our Group for its office premises and staff apartments. It accounted for 19.9% and 22.6% of the total other operating expenses of our Group for the two years ended 31 December 2014 and 2015, respectively, and 24.7% and 22.7% of the total other operating expenses of our Group for the three months ended 31 March 2015 and 2016, respectively.

Comparison between 31 March 2015 and 31 March 2016

Our other operating expenses increased to HK$21.7 million for the three months ended 31 March 2016 from HK$18.6 million for the three months ended 31 March 2015. Such increase was due to the stamp duty of HK$2.8 million resulted from our Group's reorganisation.

Comparisons between FY2014 and FY2015

Our other operating expenses increased to HK$85.3 million for the year ended 31 December 2015 from HK$37.5 million for the year ended 31 December 2014. Such increase in expenses was in line with our business growth. The increase in our other operating expenses was mainly due to (i) the increase in rental expense of HK$11.8 million as a result of the lease of new office space signed in the third quarter of 2014; (ii) the increase in maintenance fee for our trading systems by HK$9.8 million as a result of a larger number of trading terminals that we installed to cope with additional account executives and employees; (iii) increase in promotion expenses by HK$6.0 million; (iv) increase in depreciation of property and equipment by HK$3.7 million due to office renovation and purchase of equipment in the previous year; (v) increase in information expenses by HK$3.6 million on licenses fees paid to information service providers; and (vi) increase in bank charges by HK$3.6 million on handling charges incurred in obtaining new banking facilities.

Other gains and losses

The following table sets forth other gains and losses for the periods indicated:

	For the year ended 31 December		For the three months ended 31 March	
	2014	**2015**	**2015**	**2016**
	HK$	*HK$*	*HK$* *(unaudited)*	*HK$*
Exchange gain	2,248,537	11,082,861	3,025,178	2,249,526
Other loss	–	(18,501,752)	–	–
(Loss)/gain on disposal of property and equipment	–	(422)	–	9,450
	2,248,537	(7,419,313)	3,025,178	2,258,976

Comparison between 31 March 2015 and 31 March 2016

Exchange gain decreased from HK$3.0 million for the three months ended 31 March 2015 to HK$2.2 million for the three months ended 31 March 2016 because of lower swap currency activities for overseas trading for the three months ended 31 March 2016.

Comparison between FY 2014 and FY2015

Exchange gain was derived from the exchange rate spread arisen from converting clients' money into the respective local currency for their trading in overseas exchanges, mainly in futures and options contracts. The increase in exchange gain of HK$8.8 million was due to the significant increase in transactions in overseas futures markets in 2015. Other loss of HK$18.5 million was an accounting treatment recorded as a reversal of exchange difference reclassified to the consolidated statement of profit or loss upon 100% redemption of a wholly owned investment fund in November 2015 while such amount was recognised in exchange reserve as at 31 December 2014. This HK$18.5 million was derived from the currency difference over the RMB denominated wholly owned investment fund. For details of such fund and other investment funds controlled by our Group during the Track Record Period, see the table on the particulars of our Company's consolidated investment funds of the Accountants' Report set out in Appendix I.

Taxation

Our Group is subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which companies comprising our Group domicile or operate.

(i) Cayman Islands profits tax

Our Group has not been subject to any taxation in the Cayman Islands.

(ii) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit during the Track Record Period. No Hong Kong Profits Tax has been provided in 2014 as our Group has no assessable profit in 2014.

(iii) PRC corporate income tax

Under the current general provisions of the PRC Corporate Income Tax ("**CIT**") Law and published tax circular, Guoshuihan [2009] No. 47 issued by the State Administration of Taxation on 23 January 2009 (the "**Circular 47**"), QFIIs will be subject to CIT at a rate of 10% on their PRC-sourced dividends, bonus profits and interest. On 17 November 2014, the Ministry of Finance, State Administration of Taxation and China Securities Regulatory Commission have jointly issued Caishui [2009] No.79 (the "**Circular 79**"). According to the Circular 79, a temporary PRC CIT exemption has been granted to QFIIs and RQFIIs from capital gains derived from the trading of shares and other equity interest investments on or after 17 November 2014.

Tax expenses/(credit) amounted to HK$4.3 million, HK$(2.4) million, HK$(34,973) and HK$1.8 million for the years ended 31 December 2014 and 2015, and for the three months ended 31 March 2015 and 2016, respectively.

Comparison between 31 March 2015 and 31 March 2016

We recorded a tax credit of HK$34,973 for the three months ended 31 March 2015 and a tax charge of HK$1.8 million for the three months ended 31 March 2016. The tax credit of HK$34,973 was attributed to the reversal of the provision of the corporate income tax for the RQFII fund during the period.

Comparisons between FY2014 and FY2015

Our tax expenses were HK$4.3 million for the year ended 31 December 2014. Our tax credits were HK$2.4 million for the year ended 31 December 2015. The effective tax rate for the two years ended 31 December 2014 and 2015 respectively was 18.8% and (5.1%). We recorded a tax credit of HK$2.4 million in 2015, mainly due to the reversal of the provision of the corporate income tax for the RQFII fund of HK$3.4 million as a result of the disposal of the debt securities in the RQFII fund during 2015. See note 13 to the Accountants' Report set out in Appendix I for details.

Profit for the year

Comparison between 31 March 2015 and 31 March 2016

Our Group's net profit increased by 17.5% from HK$4.9 million for the three months ended 31 March 2015 to HK$5.8 million for the three months ended 31 March 2016. The growth in net profit was in line with our growth in revenue during the same period. Our net profit margin decreased from 9.2% for the three months ended 31 March 2015 to 7.3% for the three months ended 31 March 2016. The decrease in net profit margin was because of (i) increase in commission and fee expenses due to increase in the number of account executives; (ii) increase in staff cost due to increase in number of employees and bonuses paid; and (iii) the [**REDACTED**] expenses of HK$2.9 million recognised during the period.

Comparisons between FY2014 and FY2015

Our Group's net profit increased by 169.0% from HK$18.8 million for the year ended 31 December 2014 to HK$50.5 million for the year ended 31 December 2015. Our Group's costs, including finance costs, commission and fee expenses, staff costs, [**REDACTED**] expenses and other operating expenses, increased from HK$103.5 million for the year ended 31 December 2014 to HK$312.7 million for the year ended 31 December 2015, representing an increase of 202.1% which is in line with the turnover growth of 203.6%. The main reason for the increase of net profit of our Group is the same as the turnover growth as mentioned above. Our net profit margin decreased from 15.6% for the year ended 31 December 2014 to 13.9% for the year ended 31 December 2015. The reason was due to (i) the significant increase in commission and fee expenses in 2015 as a result of significant increase in trading volume; and (ii) other loss of HK$18.5 million which was due to exchange difference reclassified to the consolidated statement of profit or loss upon 100% redemption of a wholly owned investment fund in 2015.

Business segment margins

	For the year ended 31 December		For the three months ended 31 March	
	2014	**2015**	**2015**	**2016**
	%	%	%	%
			(unaudited)	
Brokerage	23.0	28.3	31.0	11.8
Loans and financing	37.3	35.8	37.1	40.7
Investment banking	35.6	36.3	45.8	(82.9)
Assets management	57.4	54.2	47.0	(28.2)
Proprietary trading	35.1	(22.4)	64.6	–

Note: The segment margin is calculated by dividing segment results by segment revenue and net gains on financial assets at FVTPL. This calculation excludes unallocated expenses shared by our business segments such as administrative staff and information system such that accurate weightings on each segment cannot be allocated. See note 36 to the Accountants' Report set out in Appendix I to the document for details.

Comparison between 31 March 2015 and 31 March 2016

Our segment margin for brokerage business decreased from 31.0% for the three months ended 31 March 2015 to 11.8% for the three months ended 31 March 2016 mainly due to the increase in commission and fee expenses from HK$6.9 million for the three months ended 31 March 2015 to HK$12.6 million for the three months ended 31 March 2016.

Our segment margin for loans and financing business slightly increased from 37.1% for the three months ended 31 March 2015 to 40.7% for the three months ended 31 March 2016 mainly due to the expansion of our margin loan portfolio as evidenced by the increase in our average month-ended margin finance loan balance from HK$615.8 million for the three months ended 31 March 2015 to HK$2,686.9 million for the three months ended 31 March 2016.

Our segment margin for investment banking business decreased from 45.8% for the three months ended 31 March 2015 to (82.9%) for the three months ended 31 March 2016 due to the revenue under several engagements for our services was yet to be recognised for that period affecting the profitability derived from this segment.

Our segment margin for assets management business decreased from 47.0% for the three months ended 31 March 2015 to (28.2%) for the three months ended 31 March 2016 for the reason that the absence of inter-segment revenue after the liquidation of our RMB-dominated wholly owned investment fund in the second half of 2015. See note 36 to the Accountants' Report in Appendix I for details.

Our segment margin for proprietary trading business decreased from 64.6% for the three months ended 31 March 2015 to nil for the three months ended 31 March 2016 as we did not make new investment under this segment up to 31 March 2016 after the liquidation of our position in debt securities in November 2015.

Comparisons between FY2014 and FY2015

Our segment margin for brokerage business increased from 23.0% for the year ended 31 December 2014 to 28.3% for the year ended 31 December 2015 due to the positive market sentiment for Hong Kong securities market in 2015 as well as more accounts opened in 2015. See "Industry Overview – Hong Kong securities, futures and options market overview" and "Business – Our business – Brokerage – Securities brokerage" for details.

Our segment margin for both loans and financing business and investment banking business remained stable for the years ended 31 December 2014 and 2015, respectively.

Our segment margin for assets management business slightly decreased from 57.4% for the year ended 31 December 2014 to 54.2% for the year ended 31 December 2015 due to the liquidation of our RMB-dominated wholly owned investment fund in the second half of 2015 which negatively impacted our inter-segment revenue. See note 36 to the Accountants' Report in Appendix I for details.

Our segment margin for proprietary trading business decreased from 35.1% for the year ended 31 December 2014 to (22.4%) for the year ended 31 December 2015 mainly due to the segment expenses of HK$18.5 million arising from reclassification of exchange difference on translation of financial statements of a wholly owned investment fund. See note 12 to the Accountants' Report in Appendix I for details.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

During the Track Record Period, we met our working capital and other capital requirements principally through a combination of cash flow from bank borrowings, capital injections from our Controlling Shareholder and our business operations. Our primary uses of cash are for our operations, interest payment for our bank borrowings and the repayment of bank borrowings. In 2015, due to positive market sentiment and the strong demand for loans and financing from our clients, we have significantly expanded the scale of our loans and financing business and therefore we utilise our available banking facilities and capital contribution from our immediate holding company to fund our operation in this segment. See "Financial Information – Indebtedness".

As at 31 December 2015, we had cash and cash equivalents of HK$238.0 million.

When determining the amount of capital and other resources to be allocated to each business segment, we mainly take into account our prevailing growth strategy and business focus, the capital requirements and estimated return for each business and applicable regulatory requirement, such as those in relation to financial resources, liquidity and risk management. Upon completion of the [**REDACTED**], we currently expect that there will not be any material change in the sources and uses of cash of our Group in the future save as disclosed in "Future Plans and Use of [**REDACTED**]" and we have no reliance on advances from related party.

The following table summarises, for the periods indicated, our statements of cash flows:

	For the year ended 31 December		For the three months ended 31 March	
	2014	**2015**	**2015**	**2016**
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Cash flow generated from operating activities before changes in working capital and taxes paid	45,378,623	127,378,668	15,576,005	23,661,701
Net cash (used in) generated from operating activities	(1,063,036,606)	(1,339,419,052)	(1,786,919,479)	35,837,372
Net cash (used in) generated from investing activities	(13,971,988)	(8,753,516)	(1,728,262)	1,353,651
Net cash generated from (used in) financing activities	1,162,138,290	1,383,007,928	1,817,679,455	(39,765,821)
Net increase (decrease) in cash and cash equivalents	85,129,696	34,835,360	29,031,714	(2,574,798)
Effect of exchange differences on translation to presentation currency	(291,551)	–	(286,728)	–
Cash and cash equivalents at beginning of year/period	118,348,564	203,186,709	203,186,709	238,022,069
Cash and cash equivalents at end of year/period	203,186,709	238,022,069	231,931,695	235,447,271

Cash flows from operating activities

Net cash flow from our Group's operating activities reflects the profit of our Group being adjusted mainly for the non-cash items (such as depreciation, amortisation of intangible assets, release of exchange difference on redemption of capital from foreign operation, etc.) and the effects of cash flows arising from the movements in working capital such as changes in accounts receivable, loans receivable, bank balance and accounts payable, etc.

The large negative net cash flow from operating activities was due to the expansion of our business particularly our margin financing business which was evidenced by our increase in total margin loan balance from HK$411.7 million as at 31 December 2014 to HK$2,421.3 million as at 31 December 2015. The significant increase reflected our enlarged capability to provide margin financing, and we took the collateral of sufficient value from our margin clients to manage our risk exposure, as a result of which we maintained stable average margin ratios*(note)* of 26.7% and 27.1% as at the corresponding dates. Despite our negative net cash flow from operating activities during the Track Record Period, we believe that we were not exposed to material liquidity risk because as at 31 December 2014 and 2015 and 31 July 2016, the unutilised banking facilities amounted to HK$973.5 million, HK$4,848.9 million and HK$5,826.4 million, respectively.

Note: Average margin ratio is calculated as margin loan balance as at 31 December 2014 and 2015 divided by the market value of the collateral held as at the same date.

For the year ended 31 December 2014, our Group had net cash used in operating activities of HK$1,063.0 million brought by our cash outflows from the movements in working capital which exceeded our profit before taxation excluding the non-cash and non-operating items. Our operating cash flows before movements in working capital was HK$45.4 million. The cash outflows from movements in our working capital were primarily derived from (i) increase in investment of a total amount of HK$597.0 million in our proprietary trading business; and (ii) HK$460.4 million increase in account receivables due to the growth in our margin financing business in 2014.

For the year ended 31 December 2015, our Group had net cash used in operating activities of HK$1,339.4 million brought by our cash outflows from the movements in working capital which exceeded our profit before taxation excluding the non-cash and non-operating items. Our operating cash flows before movements in working capital was HK$127.4 million. The cash outflows from movements in our working capital were primarily derived from (i) HK$ 2,031.4 million increase in accounts receivable as we continued to expand our margin financing business in 2015; and (ii) HK$1,215.2 million increase in bank balances – trust accounts as we continued to expand our securities brokerage business which is reflected in the increase in the number of our securities brokerage clients compared to 2014. The cash outflows were partially offset by (i) HK$1,230.1 million increase in accounts payable which was mainly due to sale transactions executed by our securities brokerage clients but not yet settled as at the year-end dates; and (ii) HK$579.5 million decrease in financial assets at FVTPL which represented the redemption of capital from a wholly owned investment fund.

For the three months ended 31 March 2015, we had net cash used in operating activities of HK$1,786.9 million. The net cash used was mainly due to the expansion of our margin financing business.

For the three months ended 31 March 2016, we had net cash generated from operating activities of HK$35.8 million. The net cash generated was mainly due to a smaller increase in accounts receivable attributable to smaller amount of new margin loan granted during the period.

Cash flows from investing activities

During the Track Record Period, our cash outflow used in investing activities was principally for purchases of property and equipment and purchases of intangible assets.

For the year ended 31 December 2014, our Group had net cash used in investing activities of HK$14.0 million, which was primarily attributable to the purchase of property and equipment of HK$12.2 million for leasehold improvement and replacement of computer equipment and trading software licence of HK$1.8 million.

For the year ended 31 December 2015, our Group had net cash used in investing activities of HK$8.8 million, which was primarily attributable to the purchase of property and equipment of HK$4.1 million for leasehold improvement and replacement of computer equipment and trading software licence of HK$0.9 million.

For the three months ended 31 March 2015, we had net cash used in investing activities of HK$1.7 million which was mainly due to purchase of property and equipment.

For the three months ended 31 March 2016, we had net cash generated from investing activities of HK$1.4 million which was mainly due to the decrease in amount due from Industrial Securities (Hong Kong) after the settlement of its current account.

Cash flows from financing activities

During the Track Record Period, our cash inflow from financing activities was principally from bank borrowings and the contribution from our Controlling Shareholder. Our cash outflow used in financing activities was principally the repayment of bank borrowings.

For the year ended 31 December 2014, our Group had net increase in financing activities of HK$1,162.1 million which mainly comprised inflows for bank borrowings of HK$1,116.5 million, capital contribution from our Controlling Shareholder of HK$190.0 million and outflow for repayments of borrowings of HK$130.0 million.

For the year ended 31 December 2015, our Group had net increase in financing activities of HK$1,383.0 million which mainly comprised inflows for bank borrowings of HK$4,625.0 million and outflow for repayments of borrowings of HK$3,195.4 million.

For the three months ended 31 March 2015, we had net cash generated in financing activities of HK$1,817.7 million. The net cash generated was mainly due to bank borrowings raised of HK$2,335.2 million.

For the three months ended 31 March 2016, we had net cash used in financing activities of HK$39.8 million. The net cash used was mainly due to the repayments of bank borrowings of HK$1,490.2 million.

Assets and liabilities

In order to ensure appropriate liquidity management and capital allocation, we periodically monitor the size and composition of our balance sheet and seek to maintain a liquid balance sheet. The majority of our balance sheet consists of current assets and current liabilities, reflecting the highly liquid nature of our business.

Net current assets and liabilities

The table below sets out selected information for our current assets and current liabilities as at the dates indicated:

	As at 31 December		As at 31 March	As at 31 July
	2014	2015	2016	2016
	HK$	*HK$*	*HK$*	*HK$* *(unaudited)*
Current Assets				
Accounts receivable	652,010,795	2,683,432,603	2,870,780,337	3,327,879,882
Loans receivable	150,500,000	282,300,000	262,600,000	289,800,000
Financial assets at FVTPL	579,594,969	–	–	86,280,187
Statutory deposits	48,378,266	12,385,409	14,332,209	3,617,047
Deposits, other receivables and prepayments	29,032,757	11,384,185	11,630,289	48,814,055
Amount due from related parties	–	3,804,021	2,373,400	6,605,800
Bank balances – trust accounts	440,374,374	1,655,617,525	1,970,678,195	2,029,597,335
Bank balance – general accounts and cash	203,186,709	238,022,069	235,447,271	759,538,661
Total current assets	2,103,077,870	4,886,945,812	5,367,841,701	6,552,132,967
Current Liabilities				
Accounts payable	713,120,824	1,943,190,294	2,436,750,492	2,391,183,737
Accruals and other payables	12,532,875	57,285,281	60,132,943	53,605,081
Amount due to a related party	–	–	–	–
Tax payable	3,570,568	149,650	2,233,159	5,752,416
Bank borrowings	986,500,000	2,416,068,466	2,389,454,855	3,538,575,478
Total current liabilities	1,715,724,267	4,416,693,691	4,888,571,449	5,989,116,712
Net Current assets	387,353,603	470,252,121	479,270,252	563,016,255

Our current assets consist primarily of cash held on behalf of clients and other institutions, current and saving bank deposits held by our Group, financial assets at FVTPL, accounts receivable arising from the businesses of brokerage and loans and financing. Our current liabilities consist primarily of accounts payable arising from the business of securities, futures and options brokerage and bank borrowings.

We recorded net current assets of HK$387.4 million, HK$470.3 million, HK$479.3 million and HK$563.0 million as at 31 December 2014, 31 December 2015, 31 March 2016 and 31 July 2016, respectively. Our Group's net current assets increased from HK$387.4 million as at 31 December 2014 to HK$470.3 million as at 31 December 2015, which was primarily due to (i) the increase in accounts receivable of HK$2,031.4 million as a result of growth in our margin financing business in 2015; (ii) the increase in bank balances in trust account of HK$1,215.2 million as a result of increase in the cash held on behalf of our clients resulting from the expansion of our securities brokerage business in 2015; while offset by the increase in current liability primarily due to (i) increase in accounts payable of HK$1,230.1 million to our brokerage clients; and (ii) increase in bank borrowings of HK$1,429.6 million for the expansion of our loans and financing business.

Our net current assets increased from HK$470.3 million as at 31 December 2015 to HK$479.3 million as at 31 March 2016. The increase was primarily due to (i) the increase in accounts receivable of HK$187.3 million as a result of growth in our margin financing business for the three months ended 31 March 2016; (ii) the increase in bank balances in trust account of HK$315.1 million as a result of increase in the cash held on behalf of our clients resulting from the continuing growth of our securities brokerage business for the three months ended 31 March 2016; while offset by the increase in current liability primarily due to increase in accounts payable of HK$493.6 million to our brokerage clients.

Our net current assets increased from HK$479.3 million as at 31 March 2016 to HK$563.0 million as at 31 July 2016. The increase was primarily due to (i) the increase in accounts receivables of HK$457.1 million as a result of growth in our margin financing business for the four months ended 31 July 2016; (ii) the increase in bank balances in general accounts and cash of HK$524.1 million after the increase in issued share capital in April 2016; while offset by the increase in bank borrowings of HK$1,149.1 million.

DESCRIPTION OF SELECTED ITEMS OF OUR CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Accounts receivable

The following table sets out the breakdown of accounts receivable for the periods indicated:

	As at 31 December		As at 31 March
	2014	2015	2016
	HK$	*HK$*	*HK$*
Accounts receivable arising from the business of dealing in securities:			
Clearing house	65,542,856	33,762,232	213,816,394
Cash clients	11,670,164	48,528,276	38,760,215
Secured margin loans	411,743,535	2,421,317,090	2,484,616,544
Brokers	6,711,407	16,295,234	10,563,651
Clients for subscription of new shares in IPO *(Note)*	–	–	12,635,861
	495,667,962	2,519,902,832	2,760,392,665
Accounts receivable arising from the business of dealing in futures and options contracts	155,767,164	153,094,406	107,454,850
Accounts receivable arising from the business of corporate finance clients	346,640	7,941,669	1,500,000
Accounts receivable arising from the business of asset management clients	229,029	2,493,696	1,432,822
Total accounts receivable	652,010,795	2,683,432,603	2,870,780,337

Note: The credit period is determined under the relevant market practices. The amounts are settled within ten days after the end of the reporting period.

Accounts receivable arising from the business of dealing in securities

The accounts receivable arising from the business of dealing in securities, except for secured margin loans, are required to be settled on the settlement date in accordance with market practices.

Cash clients

Accounts receivable from cash clients mainly relate to purchase transactions by the clients that are executed but not yet settled in cash pursuant to the T+2 settlement basis. For cash client balances that are not settled within two days after the execution of a transaction, we charge overdue interest. Our accounts receivable from cash clients were HK$11.7 million, HK$48.5 million and HK$38.8 million as at 31 December 2014, 31 December 2015 and 31 March 2016, respectively, which was mainly driven by trading activities of our cash clients in the last two trade days before 31 December 2014 and 2015 and 31 March 2016.

The aging analysis of the accounts receivable based on past due dates are as follows:

	As at 31 December		As at 31 March
	2014	**2015**	**2016**
	HK$	*HK$*	*HK$*
Past due (accounts receivable from cash clients):			
0 – 30 days	738,093	12,741,118	1,508,315
Over 30 days	124,844	2,245,194	2,046,602
Accounts receivable which were past due but not impaired	862,937	14,986,312	3,554,917
Accounts receivable which were neither past due nor impaired	651,147,858	2,668,446,291	2,867,225,420
	652,010,795	2,683,432,603	2,870,780,337

As at 31 December 2015, HK$12.7 million accounts receivable from cash clients were past due within 30 days, which was mainly due to late settlement payment of outstanding amounts from a cash client. Such outstanding amount has already been settled. Our Directors consider no impairment is necessary as there has not been a significant change in credit quality and a substantial portion of the carrying amount is subsequently settled. Our Directors consider full amounts to be recoverable.

Secured margin loans

Accounts receivable from margin clients represent the outstanding margin loan receivables from our margin clients. It relates to securities purchased on credit by our clients. The margin loans are usually pledged with securities as collateral.

Margin clients purchase securities on credit and are not required to settle their margin loans within specified periods as long as the value of the margin loans and securities collaterals remains within the agreed leverage ratio, which is the main indicator of whether our Group will continue to grant the margin facilities to the client. Our Group charges interest on margin clients on the outstanding margin loan, which in turn would gradually increase the outstanding margin loan amount.

The following table summarises our total margin loan balance, total market value of collateral held and the average margin ratio as at 31 December 2014, 2015 and 31 March 2016:

	As at 31 December		As at 31 March
	2014	2015	2016
	(HK$ in millions, except for ratio)		
Total margin loan balance	411.7	2,421.3	2,484.6
Total market value of collateral held	1,543.5	8,940.8	8,639.6
Average margin ratio (%) *(Note)*	26.7	27.1	28.8

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

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. The total market value of the collateral also increased significantly while our average margin ratio for the same periods remained stable.

Securities are assigned with specific ratios for calculating their margin values. Additional funds or collateral are required if the amount of accounts receivable outstanding exceeds the margin value of securities collaterals. The collateral held can be sold at our Group's discretion to settle any outstanding amount owed by margin clients in accordance with the terms of our client agreement and our policies.

In the event when our margin loan amounts are not fully secured due to a decrease in the value of collateral, the actions that we have taken include the following:

1. We issued margin calls requesting the clients to deposit additional funds or securities to reduce our exposure to credit risk; and

2. In cases where we determined that our clients would be unable to meet the margin calls, we have sold the relevant pledged securities and applied the sales proceeds towards repayment of the outstanding balance.

As at 31 December 2014, 2015 and 31 March 2016, the total accounts receivable from our top five margin clients amounted to HK$238.0 million, HK$642.3 million and HK$731.9 million, respectively.

Our credit and risk management policy requires the review of individual outstanding amount at least monthly or in a more frequent manner depending on individual circumstances or market condition. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance sheet date on a case-by-case basis, and are applied to all individually significant accounts. Generally, impairment allowances will be provided when clients fail to meet margin call requirements and clients' collaterals are insufficient to cover their outstanding loan balances. For the years ended 31 December 2014, 2015 and the three months ended 31 March 2016, no impairment loss was recorded.

Due to the nature of margin loans, receivables from margin loan clients were not past due. The ageing and subsequent settlement status of such receivables as at a particular date is of no significance and not applicable.

Clearing houses and broker

Accounts receivable from clearing houses represent amounts receivable from the clearing houses for sale transactions executed by our clients but not yet settled as at the year-end dates. Accounts receivable from brokers represent amounts receivable from external brokers for sale transactions executed by our clients but not yet settled as at the year-end dates. The increase in both items during the Track Record Period were generally in line with the growth of trading volume by our cash and margin clients.

Accounts receivable arising from the business of dealing in futures and options contracts

In respect of accounts receivable arising from the business of dealing in futures and options contracts, under the settlement arrangement with the clearing house, all open positions held at clearing house are treated as if they were closed out and reopened at the relevant closing quotation as determined by HKCC. Profits or losses arising from this "mark-to-market" settlement arrangement are included in accounts receivables with clearing house.

In accordance with our agreement with the external brokers, mark-to-market profits or losses are treated as if they were settled and are included in accounts receivable with brokers.

Accounts receivable arising from the business of corporate finance and asset management

Normal settlement terms of accounts receivable arising from the business of corporate finance and asset management clients are determined in accordance with the contract terms, usually within one year after the service was provided. As at 31 December 2014 and 2015 and 31 March 2016, these accounts receivable are included in "neither past due nor impaired" category. The management of our Group believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality.

For the ageing analysis of accounts receivable arising from the business of corporate finance clients and asset management clients, see note 21 to the Accountants' Report set out in Appendix I.

Loans receivable

The following table sets forth the maturity profile of loans receivable for the periods indicated:

	As at 31 December		As at 31 March
	2014	**2015**	**2016**
	HK$	*HK$*	*HK$*
Fixed-rate loans receivable	157,500,000	282,300,000	264,600,000
Analyses as:			
Current	150,500,000	282,300,000	262,600,000
Non-current	7,000,000	–	2,000,000
	157,500,000	282,300,000	264,600,000

With the expansion of our money lending business, our fixed-rate loans receivable increased from HK$157.5 million in 2014 to HK$282.3 million in 2015 and slightly decreased to HK$264.6 million as at 31 March 2016. All of them were neither past due nor impaired. All except a HK$7 million loan in 2014 were due within one year. The HK$7 million loan was a two year loan granted in 2014 and was settled in 2015. All loans were denominated in HKD.

Save as the loan amount of HK$2.0 million as at 31 March 2016 which was unsecured, the loan receivables under money lending business during the Track Record Period were secured by collateral with aggregated fair value of HK$720.0 million, HK$1,963.6 million and HK$1,881.5 million, respectively, as at 31 December 2014 and 2015 and 31 March 2016. As these secured loans were backed by collateral together with financial comfort and/or further security such as guarantee (where required), and the unsecured loan was made after we had completed background check and credit assessment on the relevant borrower to our satisfaction, our Directors consider such amount of loan receivables to be recoverable.

Financial assets at FVTPL

Our financial assets at FVTPL were HK$579.6 million and nil as at 31 December 2014 and 2015, respectively. The change was due to our liquidation of our proprietary trading portfolio in May and November 2015. See "Financial Information – Proprietary trading" for details. As at 31 March 2016, we did not hold investment portfolio under proprietary trading.

As at 30 June 2016, we acquired and held debt securities with total market value of US$234.9 million. For our investment strategy, see "Business – Proprietary trading" for details.

Statutory deposits (classified as current assets)

Our statutory deposits (classified as current assets) were HK$48.4 million, HK$12.4 million and HK$14.3 million as at 31 December 2014, 2015 and 31 March 2016, respectively. The balances were mainly derived from the statutory required reserve for pending settlement of eligible securities traded through the Shanghai-Hong Kong Stock Connect as at the year-end date.

Deposits, other receivables and prepayments (classified as current assets)

Our deposits, other receivables and prepayments (classified as current assets) were HK$29.0 million, HK$11.4 million and HK$11.6 million as at 31 December 2014 and 2015 and 31 March 2016, respectively. Of the HK$29.0 million in 2014, HK$21.7 million were interest receivables derived from the HK$577.2 million equivalent debt securities. Of the HK$11.4 million in 2015, HK$1.6 million were our prepaid [**REDACTED**] expenses.

Amounts due from related companies

As at 31 March 2016, amounts due from related companies were HK$2.4 million (equivalent to RMB2.0 million). Such amounts represented the deposit paid and maintained by Industrial Securities (Hong Kong) for maintaining RQFII licence which was registered under the name of Industrial Securities (Hong Kong). Pursuant to the RQFII depository and clearing guidelines issued by the Shanghai Branch and Shenzhen Branch of China Securities Depository and Clearing Corporation Limited ("**CSDC**"), a deposit of RMB1.0 million is required to be maintained by Industrial Securities (Hong Kong) with each of both Shanghai Branch and Shenzhen Branch of CSDC for trading and settlement on such exchanges. As such, upon completion of the Reorganisation, except for the rights in RQFII licence which was not transferable and the investment in Industrial Securities (Shenzhen), all assets, liabilities and contracts of Industrial Securities (Hong Kong) had been transferred to our Company, resulting in an amount of RMB2.0 million due from Industrial Securities (Hong Kong) as recognised by our Company. Our Company has entered into an agreement with Industrial Securities (Hong Kong) for the use of the RQFII quota of Industrial Securities (Hong Kong) for consideration of HK$1 per annum for a term of three years (the "**RQFII Agreement**"). See "Connected Transactions – RQFII Agreement" for details.

The amount in the sum of RMB2.0 million due from Industrial Securities (Hong Kong) will be settled by Industrial Securities (Hong Kong) before [**REDACTED**].

Bank balances – trust accounts

Our Group receives and holds money deposited by our clients during the course of conducting our business. Our bank balances – trust accounts increased from HK$440.4 million as at 31 December 2014 to HK$1,655.6 million as at 31 December 2015 and further increase to HK$1,970.7 million as at 31 March 2016, mainly due to an increase in the deposit driven by increased number of brokerage clients and the increase in their trading volume in the same periods.

Bank balance – general accounts and cash

Our general bank balance remained stable at HK$203.2 million, HK$238.0 million and HK$235.4 million as at 31 December 2014, 2015 and 31 March 2016.

Accounts Payable

The breakdown of the accounts payable is as follows:

	As at 31 December		As at 31 March
	2014	**2015**	**2016**
	HK$	*HK$*	*HK$*
Accounts payable arising from the business of dealing in securities:			
Clearing house	–	14,316,346	59,539,994
Brokers	3,787,689	23,800,501	1,386,583
Clients	500,715,080	1,492,222,004	1,873,001,131
	504,502,769	1,530,338,851	1,933,927,708
Accounts payable arising from the business of dealing in futures and options contracts	199,161,764	412,851,443	502,822,784
Accounts payable arising from the business of corporate finance clients	9,456,291	–	–
	713,120,824	1,943,190,294	2,436,750,492

Accounts payable arising from the business of dealing in securities

Accounts payable to clearing house represents the amounts payable to CCASS for purchase transactions executed by our clients but not yet settled in CCASS pursuant to the T+2 settlement basis as at the year-end dates.

The majority of the accounts payable to clients are repayable on demand except where certain balances represent trades pending settlement or margin deposits and cash collateral received from clients for their trading activities. Only the amounts in excess of the required margin deposits and cash collateral are repayable on demand.

Accounts payable arising from the business of dealing in futures and options contracts

In respect of accounts payable arising from the business of dealing in futures and options contracts, under the settlement arrangement with the clearing house, all open positions held at clearing house are treated as if they were closed out and reopened at the relevant closing quotation as determined by HKCC. Profits or losses arising from this "mark-to-market" settlement arrangement are included in accounts payable with clearing house.

Accounts payable to clients arising from the business of dealing in futures and option contract are non-interest bearing.

Accruals and other payables

Accruals and other payables mainly consisted of accrued charges which comprised the accrued operating expenses including staff salary and bonus and also commission to accounts executives. The accrued charges increased by HK$45.9 million or 496.3% from HK$9.2 million in 2014 to HK$55.1 million in 2015. The increase in accruals was in line with the increase in the number of our employees and accounts executives.

The accruals and other payables slightly increased to HK$60.1 million as of 31 March 2016.

Accumulated Losses

Our Group's history traces back to July 2011 when Industrial Securities founded Industrial Securities (Hong Kong). During our initial stage of development, we incurred significant expenses on our operations and, as a result, we recorded an accumulated loss of HK$71.9 million as of 1 January 2014. With the expansion of our sales force and positive market sentiment in the first half of 2015, we recorded a net profit of HK$18.8 million for the year ended 31 December 2014 and our net profit further increased to HK$50.5 million for the year ended 31 December 2015, which largely reduced the accumulated loss to HK$2.6 million as of 31 December 2015.

As at 31 March 2016, we recorded retained earnings of HK$3.2 million.

WORKING CAPITAL

Our Directors confirm, and the Joint Sponsors concur, that, taking into consideration of the financial resources presently available to us, including banking facilities and internal resources, and the estimated [**REDACTED**] from the [**REDACTED**], we have sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this document. Our Directors are not aware of any other factors that would have a material impact on our Group's liquidity. Details of the funds necessary to meet our existing operations and to fund our future plans are set out in "Future Plans and Use of [**REDACTED**]".

INDEBTEDNESS

The following table sets out our total indebtedness as at the dates indicated:

	As at 31 December		As at 31 March	As at 31 July
	2014	**2015**	**2016**	**2016**
	HK$	*HK$*	*HK$*	*HK$*
				(unaudited)
Variable rate borrowings	986,500,000	2,416,068,466	2,389,454,855	3,538,575,478

During the Track Record Period, our Group's bank borrowings consisted of short term bank loans. As at 31 December 2014 and 2015 and 31 March 2016, HK$986.5 million, HK$2,416.1 million and HK$2,398.5 million was drawn by our Group respectively under the aggregated banking facilities of HK$1,960.0 million, HK$7,265.0 million and HK$8,177.5 million of our Group, respectively. Such increase in our bank borrowings was primarily to finance the expansion of our margin financing and money lending business. Industrial Securities issued a guarantee to support the banking facilities of our Group amounting to HK$650.0 million, HK$2,000.0 million and HK$2,000.0 million as at 31 December 2014 and 2015 and 31 March 2016, respectively. Industrial Securities provided letters of comfort to support the banking facilities of our Group amounting to HK$1,060.0 million, HK$2,560.0 million and HK$3,160.0 million as at 31 December 2014 and 2015 and 31 March 2016, respectively. Industrial Securities (Hong Kong) provided corporate guarantees to support the banking facilities of our Group amounting to HK$1,060.0 million, HK$1,535.0 million and HK$3,165.0 million as at 31 December 2014 and 2015 and 31 March 2016, respectively. Our Group's bank borrowings amounting to HK$50.0 million, HK$394.1 million and HK$285.0 million as at 31 December 2014 and 2015 and 31 March 2016, respectively was guaranteed by Industrial Securities (Hong Kong) and secured by charges over clients' pledged securities with fair value of HK$306.1 million, HK$1,679.1 million and HK$1,929.7 million, respectively upon receiving client's authorisation. Our Group's bank borrowings amounting to HK$500.0 million, HK$1,030.0 million and HK$1,200.0 million as at 31 December 2014 and 2015 and 31 March 2016, respectively were guaranteed by Industrial Securities (Hong Kong). Also, our Group's bank borrowings amounting to nil, HK$792.0 million and HK$792.0 million as at 31 December 2014 and 2015 and 31 March 2016, respectively were guaranteed by Industrial Securities. In addition to the above guarantees and charges, Industrial Securities provided letters of comfort to support the bank borrowings of our Group amounting to HK$550.0 million, HK$1,554.1 million and HK$1,505.0 million as at 31 December 2014 and 2015 and 31 March 2016, respectively. Our Directors represent that the guarantees issued and letters of comfort provided by Industrial Securities and Industrial Securities (Hong Kong) will be released prior to the [**REDACTED**].

At at 31 July 2016, our variable rate borrowings increased to HK$3,538.6 million from HK$2,389.5 million as at 31 March 2016 primarily due to the development of our proprietary trading business and the expansion of our loans and financing business. As at 31 July 2016, our aggregated banking facilities amounted to HK$9,365.0 million.

The interest rate of our Group's borrowings as at 31 December 2014, 2015 and 31 March 2016, ranged from Hong Kong Interbank Offered Rate ("**HIBOR**") plus 1.9% to HIBOR plus 3.3%, HIBOR plus 1.04% to HIBOR plus 2.7% and the fixed interest rate of 0.9% to HIBOR plus 2.65%, respectively. The weighted average effective interest rate on our bank loans for the years ended 31 December 2014, 2015 and the three months ended 31 March 2016 was 2.8% per annum, 2.0% per annum and 1.9% per annum, respectively.

As at the Latest Practicable Date, there was no material covenant relating to our bank borrowings. Our Directors confirm that there was no breach of any covenant under our bank borrowings during the Track Record Period and up to the Latest Practicable Date.

During the Track Record Period and up to Latest Practicable Date, our Directors confirm that, to the best of their knowledge, we did not experience any difficulty in obtaining bank borrowings, default in payment on bank borrowings or breach of finance covenants and that they do not foresee any difficulty for our Group in obtaining bank borrowings after the Latest Practicable Date.

Our Directors also confirm that as at the Latest Practicable Date, we had not decided to raise any material external debt financing, other than those already disclosed in this section and the possible renewal of the existing short term bank loans that we may obtain from time to time for the purpose of provision of margin loans to our margin clients under loans and financing business.

At the close of business on 31 July 2016, our Group had secured and guaranteed bank borrowings, unsecured and guaranteed bank borrowings and unsecured and unguaranteed bank borrowings amounting to HK$608.6 million, HK$2,230.0 million and HK$700.0 million, respectively.

The guaranteed bank borrowings are either guaranteed by Industrial Securities (Hong Kong) or the Company.

Save as aforesaid and apart from the intra-group liabilities, our Group did not have any outstanding mortgages, charges, debentures, other loan capital, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, finance leases, hire purchase commitments, guarantees or other material contingent liabilities, issued or authorised but unissued debt securities, terms loans or any other borrowings as at the close of business on 31 July 2016.

Contingent liabilities

As at 31 July 2016, being the latest practicable date for the purpose of this statement of indebtedness, our Group did not have any guarantees or other material contingent liabilities.

Our Directors confirm that, other than disclosed in this document, there had been no material change in our indebtedness and contingent liabilities since 31 July 2016 to the date of this document.

CONTRACTUAL AND CAPITAL COMMITMENTS

Operating lease commitments

At the end of each of the reporting year, our Group had outstanding commitments under non-cancellable operating leases which fall due as follows:

	As at 31 December		As at 31 March
	2014	**2015**	**2016**
	HK$	*HK$*	*HK$*
Within one year	17,755,746	20,839,533	23,251,097
In the second to fifth year inclusive	31,584,770	11,346,632	7,315,680
	49,340,516	32,186,165	30,566,777

Operating lease payments represent rentals payable by our Group for its office premises and directors and staff apartments. Leases and rentals are negotiated and fixed for on average of two to three years.

CAPITAL EXPENDITURES

The following table sets out our capital expenditures for the periods indicated:

	As at 31 December		As at 31 March
	2014	**2015**	**2016**
	HK$	*HK$*	*HK$*
Property and equipment	12,192,503	4,098,533	79,530
Intangibles assets	1,779,485	850,962	10,040
	13,971,988	4,949,495	89,570

Our Group's capital expenditures have principally consisted of expenditures on leasehold improvement and computer equipment. During the Track Record Period, our Group incurred capital expenditures of HK$14.0 million, HK$4.9 million and HK$89,570, for the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, respectively.

We expect to incur capital expenditures of HK$13.2 million in 2016. These expected capital expenditures are primarily for leasehold improvement and IT and office equipment. We expect to finance our capital expenditure through a combination of the proceeds of operations and the [**REDACTED**] from the [**REDACTED**] and bank and other borrowings. We may adjust our capital expenditures for any given period according to our development plans and the market conditions and other factors which we considered applicable to our business.

Our Group's projected capital expenditures are subject to revision based upon any future changes in our business plan, market conditions, and economic and regulatory environment. See "Future Plans and Use of [**REDACTED**]" in this document for further information.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

Save as disclosed in the sub-section headed "Contractual and Capital Commitments" in this section, we did not have any off-balance sheet arrangements as at 31 July 2016.

TRANSACTIONS WITH RELATED PARTIES

We enter into transactions with our related parties from time to time. It is the view of our Directors that each of the related party transactions set out in note 34 to the Accountants' Report in Appendix I to this document were conducted in the ordinary course of business on an arm's length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related parties transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as at each of the dates indicated:

	For the year ended 31 December		For the three months ended 31 March
	2014	**2015**	**2016[8]**
Net profit margin[1]	15.6%	13.9%	7.3%
Return on equity[2]	4.5%	10.2%	4.6%
Return on total assets[3]	0.9%	1.0%	0.4%

	As at 31 December		As at 31 March
	2014	**2015**	**2016**
Current ratio[4]	1.2	1.1	1.1
Quick ratio[5]	1.2	1.1	1.1
Gearing ratio[6]	234.5%	485.9%	474.0%
Net debt to equity ratio[7]	186.2%	438.0%	427.3%

Notes:

(1) Net profit margin is calculated by dividing our profit for the year/period by revenue of the respective year/period times 100%.

(2) Return on equity is calculated by our profit for the year as a percentage of our equity as at the end of each financial year times 100%.

(3) Return on assets is calculated by our profit for the year as a percentage of our total assets as at the end of each financial year times 100%.

(4) Current ratio is calculated by dividing our current assets by our current liabilities as at the end of the respective financial year/period.

(5) Quick ratio is calculated by dividing current assets less inventories by current liabilities as at the end of the respective financial year/period.

(6) Gearing ratios is bank borrowings as a percentage of total equity as of the end of each financial year/period times 100%.

(7) Net debt to equity ratios is the total amount of our bank borrowings less cash and cash equivalents as a percentage of total equity as at the end of each financial year/period times 100%.

(8) For illustrative purpose only, the ratios of return on equity and return on total assets for the three months ended 31 March 2016 presented above are annualised amounts derived by multiplying by four on the actual ratios for the three months ended 31 March 2016, are not intended to be representative of what the ratios would be for the twelve months ending 31 December 2016 and are not comparable to the ratios in the twelve months ended 31 December 2014 or 2015.

(9) In April 2016, our Company issued a total of 2,395,841,579 Shares at a total consideration of HK$2,419,799,995 in cash to China Industrial Securities International Holdings, the [**REDACTED**] and the Eligible Participants pursuant to the Employee Share Participation Scheme, as more particularly described in "History, Reorganisation and Group Structure". The figures above do not take into account the cash received by our Company for the aforementioned issue of Shares.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks from changes in market rates and prices, such as interest rates, foreign currency, credit and liquidity. See note 7 to the Accountants' Report set out in Appendix I for details.

Net profit margin

Our net profit margin is calculated by dividing our profit for the year by revenue. Our net profit margin decreased from 15.6% for the year ended 31 December 2014 to 13.9% for the year ended 31 December 2015 mainly due to the (i) the significant increase in commission and fee expenses in 2015; and (ii) other loss of HK$18.5 million which was due to exchange difference reclassified to the consolidated statement of profit or loss upon 100% redemption of a wholly owned investment fund in 2015.

Return on equity

Our return on equity is our profit for the year as a percentage of our equity for each financial year. Our return on equity increased from 4.5% for the year ended 31 December 2014 to 10.2% for the year ended 31 December 2015 mainly because our Group's net profit was driven by the expansion of our margin financing business which was supported by our available banking facilities.

The decrease in return on equity for the three months ended 31 March 2016 was due to (i) increase in commission and fee expenses due to increase in the number of account executives; (ii) increase in staff cost due to increase in number of employees and bonuses paid; and (iii) the [**REDACTED**] expenses of HK$2.9 million recognised during the period.

Return on total asset

Our return on total assets is our profit for the year as a percentage of our total assets for each financial year. Our return on assets remained stable at 0.9% and 1.0% for the two years ended 31 December 2014, 2015 respectively.

The decrease in return on total asset for the three months ended 31 March 2016 was due to (i) increase in commission and fee expenses due to increase in the number of account executives; (ii) increase in staff cost due to increase in number of employees and bonuses paid; and (iii) the [**REDACTED**] expenses of HK$2.9 million recognised during the period.

Current ratio and quick ratio

Our current ratio is derived by dividing our currents assets by our current liabilities at the end of each financial period. Quick ratio is current assets less inventories dividing by current liabilities at the end of each financial period. Our quick ratio is the same as our current ratio, since our Group did not have any inventory during the Track Record Period. Our Group's current ratio and quick ratio remained stable at 1.2, 1.1 and 1.1 as at 31 December 2014, 31 December 2015 and 31 March 2016, respectively.

Gearing ratio

Gearing ratio is the total amount of our bank borrowings as a percentage of total equity as at the end of each financial period. Our gearing ratio increased from 234.5% as at 31 December 2014 to 485.9% as at 31 December 2015 mainly due to increase in bank borrowings from HK$986.5 million as at 31 December 2014 to HK$2,416.1 million as at 31 December 2015 under the aggregated banking facilities of HK$1,960.0 million and HK$7,265.0 million, respectively to finance for the rapid expansion of our margin financing business.

Our gearing ratio slightly decreased to 474.0% as at 31 March 2016.

Net debt to equity ratio

Net debt-to-equity ratio is the total amount of our bank borrowings less cash and cash equivalents as a percentage of total equity as at the end of each financial period. Our net debt-to-equity ratio increased from 186.2% as at 31 December 2014 to 438.0% as at 31 December 2015 mainly due to increase in bank borrowings from HK$986.5 million as at 31 December 2014 to HK$2,416.1 million as at 31 December 2015 under the aggregated banking facilities of HK$1,960.0 million and HK$7,265.0 million respectively to finance for the rapid expansion of our margin financing business.

Our net debt-to-equity ratio slightly decreased to 427.3% as at 31 March 2016.

DIVIDEND

No dividends have been declared and paid by the companies comprising our Group during the Track Record Period and up to the Latest Practicable Date. During the Track Record Period, we did not have any dividend policy and we do not currently have any dividend policy in place. The recommendation of the payment of dividend is subject to the absolute discretion of our Board, and, after the [**REDACTED**], any declaration of final dividend for the year will be subject to the approval of our Shareholders. Our Directors may recommend a payment of dividend in the future after taking into account our operations, earnings, financial condition, cash requirements and availability, capital expenditure and future development requirements and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of the dividend will be subject to our constitutional documents and the Companies Law, including the approval of our Shareholders.

As a result, there can be no assurance that any particular amount of dividends, or any dividend at all, will be declared or paid in the future. Cash dividends on the Shares, if any, will be paid in Hong Kong dollars. Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that as of the Latest Practicable Date, there were no circumstances that would give rise to the disclosure requirements under Rules 17.15 to 17.21 of the GEM Listing Rules.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 21 July 2015. As of 31 March 2016, we had HK$4,775,870 in retained profits as determined under HKFRSs available for distribution to our shareholder.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Please see the section "Unaudited Pro Forma Financial Information" in Appendix II for our unaudited pro forma adjusted consolidated net tangible assets.

[REDACTED]

[**REDACTED**] represent professional fees, [**REDACTED**] commissions and other fees incurred in connection with the [**REDACTED**] and [**REDACTED**]. Assuming an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**] (being the mid-point of the stated range of the [**REDACTED**] of between HK$[**REDACTED**] and HK$[**REDACTED**] per [**REDACTED**]), [**REDACTED**] to be borne by us are estimated to be HK$[**REDACTED**], of which HK$[**REDACTED**] is directly attributable to the issue of the [**REDACTED**] to the public and to be capitalised, and HK$[**REDACTED**] has been or is expected to be reflected in our consolidated statements of profit or loss and other comprehensive income. HK$[**REDACTED**] of the [**REDACTED**] were reflected in our consolidated statements of profit or loss and other comprehensive income for the year ended 31 December 2015. In view of the above, [**REDACTED**] should note that the financial results of our Group for the year ending 31 December 2016 will be adversely affected by the non-recurring expenses in relation to the [**REDACTED**].

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there have not been any material adverse changes in our financial or trading position or prospects subsequent to the Track Record Period and up to the date of this document. As far as we are aware, there was no material change in the general market conditions that had affected or would affect our business operations or financial conditions materially and adversely.