

*The Stock Exchange of Hong Kong Limited and the Securities and Futures Commission take no responsibility for the contents of this Post Hearing Information Pack, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Post Hearing Information Pack.*

**Post Hearing Information Pack of**



**China Industrial Securities International Financial  
Group Limited**

**興證國際金融集團有限公司**

(the “**Company**”)

*(Incorporated in the Cayman Islands with limited liability)*

**WARNING**

The publication of this Post Hearing Information Pack is required by The Stock Exchange of Hong Kong Limited (the “**Exchange**”)/the Securities and Futures Commission (the “**Commission**”) solely for the purpose of providing information to the public in Hong Kong.

This Post Hearing Information Pack is in draft form. The information contained in it is incomplete and is subject to change which can be material. By viewing this document, you acknowledge, accept and agree with the Company, its sponsors, advisers and members of the underwriting syndicate that:

- (a) this document is only for the purpose of providing information about the Company to the public in Hong Kong and not for any other purposes. No investment decision should be based on the information contained in this document;
- (b) the publication of this document or any supplemental, revised or replacement pages on the Exchange’s website does not give rise to any obligation of the Company, its sponsors, advisers or members of the underwriting syndicate to proceed with an offering in Hong Kong or any other jurisdiction. There is no assurance that the Company will proceed with the offering;
- (c) the contents of this document or supplemental, revised or replacement pages may or may not be replicated in full or in part in the actual final listing document;
- (d) this Post Hearing Information Pack is not the final listing document and may be updated or revised by the Company from time to time in accordance with the Listing Rules;
- (e) this document does not constitute a prospectus, offering circular, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it calculated to invite offers by the public to subscribe for or purchase any securities;
- (f) this document must not be regarded as an inducement to subscribe for or purchase any securities, and no such inducement is intended;
- (g) neither the Company nor any of its affiliates, advisers or underwriters is offering, or is soliciting offers to buy, any securities in any jurisdiction through the publication of this document;
- (h) no application for the securities mentioned in this document should be made by any person nor would such application be accepted;
- (i) the Company has not and will not register the securities referred to in this document under the United States Securities Act of 1933, as amended, or any state securities laws of the United States;
- (j) as there may be legal restrictions on the distribution of this document or dissemination of any information contained in this document, you agree to inform yourself about and observe any such restrictions applicable to you; and
- (k) the application to which this document relates has not been approved for listing and the Exchange and the Commission may accept, return or reject the application for the subject public offering and/or listing.

If an offer or an invitation is made to the public in Hong Kong in due course, prospective investors are reminded to make their investment decisions solely based on the Company’s prospectus registered with the Registrar of Companies in Hong Kong, copies of which will be distributed to the public during the offer period.

---

**IMPORTANT**

---

*IMPORTANT: If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.*



**China Industrial Securities International Financial  
Group Limited**

**興證國際金融集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

[REDACTED]

Nominal value : HK\$0.10 per share  
[REDACTED]

Joint Sponsors and [REDACTED]



[REDACTED]

---

[REDACTED]

---

## CHARACTERISTICS OF GEM

---

### *CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM")*

*GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. [REDACTED] should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.*

*Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.*

*The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspaper. Accordingly, [REDACTED] should note that they need to have access to the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) in order to obtain up-to-date information on GEM-listed issuers.*

## **EXPECTED TIMETABLE<sup>(1)</sup>**

---

**[REDACTED]**

## **EXPECTED TIMETABLE<sup>(1)</sup>**

---

**[REDACTED]**

## **EXPECTED TIMETABLE<sup>(1)</sup>**

---

**[REDACTED]**

## CONTENTS

### **IMPORTANT NOTICE TO INVESTORS**

*You should rely only on the information contained in this document to make your investment decision.*

*This document is issued by our Company solely in connection with the [REDACTED] and the [REDACTED] and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the [REDACTED] offered by this document. This document may not be used for the purpose of and does not constitute an offer to sell or a solicitation of an offer in any other jurisdiction or in any other circumstances.*

*Our Company, the Joint Sponsors, [REDACTED] have not authorised anyone to provide you with information that is different from what is contained in this document.*

*Any information or representation not made in this document must not be relied on by you as having been authorised by our Company, the Joint Sponsors, [REDACTED], any of their respective directors, officers, employees, agents or representatives or any other party involved in the [REDACTED].*

*The contents on the website at [www.xyzq.com.hk](http://www.xyzq.com.hk) which is the official website of our Company do not form part of this document.*

	<i>Page</i>
<b>Characteristics of GEM</b> .....	i
<b>Expected Timetable</b> .....	ii
<b>Contents</b> .....	v
<b>Summary</b> .....	1
<b>Definitions</b> .....	17
<b>Glossary of Technical Terms</b> .....	32
<b>Forward-looking Statements</b> .....	34
<b>Risk Factors</b> .....	36
<b>Information about this Document and the [REDACTED]</b> .....	57

---

## CONTENTS

---

	<i>Page</i>
<b>Waiver from Compliance with the GEM Listing Rules</b> . . . . .	61
<b>Directors and Parties Involved in the [REDACTED]</b> . . . . .	62
<b>Corporate Information</b> . . . . .	67
<b>Industry Overview</b> . . . . .	69
<b>Regulatory Overview</b> . . . . .	79
<b>History, Reorganisation and Group Structure</b> . . . . .	107
<b>Business</b> . . . . .	126
<b>Relationship with the Controlling Shareholders</b> . . . . .	204
<b>Connected Transactions</b> . . . . .	213
<b>Directors, Senior Management and Staff</b> . . . . .	218
<b>Substantial Shareholders</b> . . . . .	233
<b>[REDACTED]</b> . . . . .	236
<b>Share Capital</b> . . . . .	240
<b>Financial Information</b> . . . . .	243
<b>Future Plans and Use of [REDACTED]</b> . . . . .	285
<b>Underwriting</b> . . . . .	290
<b>Structure of the [REDACTED]</b> . . . . .	302
<b>How to Apply for [REDACTED]</b> . . . . .	312
<b>Appendix I – Accountants’ Report</b> . . . . .	I-1
<b>Appendix II – Unaudited Pro Forma Financial Information</b> . . . . .	II-1



---

## CONTENTS

---

	<i>Page</i>
<b>Appendix III – Summary of the Constitution of the Company and Cayman Islands Company Laws . . . . .</b>	<b>III-1</b>
<b>Appendix IV – Statutory and General Information . . . . .</b>	<b>IV-1</b>
<b>Appendix V – Documents Delivered to the [REDACTED] and Available for Inspection . . . . .</b>	<b>V-1</b>

---

## SUMMARY

---

*This summary aims to give you an overview of the information contained in this document and should be read in conjunction with the full text of this document. Since this is a summary, it does not contain all the information that may be important to you. You should read the whole document, including our financial statements and the accompanying notes, before you decide to invest in the [REDACTED].*

*There are risks associated with any investment. Some of the particular risks of investing in the [REDACTED] are set forth in the section headed “Risk Factors” of this document. You should read that section carefully before you decide to invest in the [REDACTED]. Various expressions used in this summary are defined in the sections headed “Definitions” and “Glossary of Technical Terms” in this document.*

## OVERVIEW

We are a full-service securities group based in Hong Kong with integrated service offering comprising brokerage, loans and financing, investment banking and asset management services. Our Controlling Shareholder, Industrial Securities, is one of the leading securities firms in the PRC and listed on the Shanghai Stock Exchange (stock code: 601377). According to the SAC, for the year 2015, Industrial Securities was ranked (i) 16th out of 125 PRC securities companies in terms of total assets which amounted to approximately RMB98.5 billion; and (ii) 16th out of 125 PRC securities companies in terms of revenue which amounted to approximately RMB8.6 billion (representing 1.5% of the total revenue of these PRC securities companies as quoted by the SAC). Through our operating subsidiaries, we provide a wide range of financial services tailored to the varying needs of our clients. To fasten the development and expansion of our business and service capability, we have developed a strong capital base through a series of capital injections from our Shareholders, as further described in the “History, Reorganisation and Group Structure” section. To capture growth opportunities and offer services of premium quality, we had a seasoned team led by 15 Responsible Officers with strong technical know-how and rich industry experience as at 31 March 2016 across our different business lines to serve our clients. 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.

Our service offering primarily comprises the following:

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

## SUMMARY

- **Investment banking:** we provide investment banking services, including equity and debt securities underwriting, listing sponsorship and financial advisory services.
- **Asset management:** we offer collective asset management products, discretionary account management and investment advisory services which cater to different investment styles and risk appetites of our clients.
- **Proprietary trading:** we engage in proprietary trading in financial products for our own accounts.

Our diversified business portfolio allows us to create synergies between our business lines, generate cross-selling opportunities and provide integrated financial services to clients.

Our Group's history traces back to July 2011 when Industrial Securities founded Industrial Securities (Hong Kong) with an initial issued share capital of HK\$100 million. Our operating subsidiaries were granted the licenses for Type 1, Type 2, Type 4 and Type 9 regulated activities by the SFC in 2012 and Type 5 and Type 6 regulated activities in 2013, respectively. The total market value of all securities held by our brokerage clients reached over HK\$30 billion in 2015. We are a Category C Exchange Participant and we were ranked 24th in terms of managed securities capitalisation in 2015 among all the securities companies in Hong Kong, according to Frost & Sullivan. We were also ranked 27th among all underwriters in terms of underwriting amount in 2015 in Hong Kong. For details, see "Industry Overview".

Despite our short operating history, we experienced rapid growth during the Track Record Period. Our total revenue increased from HK\$120.0 million to HK\$364.3 million for the years ended 31 December 2014 and 2015, representing a year-to-year increase of 203.6%, and increased from HK\$53.8 million to HK\$79.8 million for the three months ended 31 March 2015 and 2016, representing a period-to-period increase of 48.2%. The following table sets forth a breakdown of our revenue for the years indicated:

	For the year ended 31 December				For the three months ended 31 March			
	2014		2015		2015		2016	
	(HK\$ in millions)	%	(HK\$ in millions)	%	(HK\$ in millions)	%	(HK\$ in millions)	%
<b>Commission and fee income</b>								
<b>from brokerage services</b>	45.3	37.7	175.2	48.1	20.5	38.2	23.9	30.0
– Securities	24.0	20.0	115.6	31.7	10.6	19.7	17.5	22.0
– Futures and options	21.3	17.7	59.6	16.4	10.0	18.5	5.8	7.3
– Insurance brokerage	–	–	–	–	–	–	0.6	0.7
<b>Income from loans and financing services</b>	10.0	8.3	127.0	34.9	9.7	18.1	52.9	66.3
– Interest income from margin financing	8.1	6.7	107.1	29.4	7.1	13.2	47.8	59.9
– Interest income from money lending	1.9	1.6	19.9	5.5	2.6	4.9	5.1	6.4

## SUMMARY

	For the year ended 31 December				For the three months ended 31 March			
	2014		2015		2015		2016	
	(HK\$ in millions)	%	(HK\$ in millions)	%	(HK\$ in millions)	%	(HK\$ in millions)	%
<b>Commission on and advisory fees from investment banking services</b>	20.1	16.8	25.6	7.0	1.6	2.9	1.4	1.8
– Commission on fund raising	18.1	15.1	21.0	5.8	0.3	0.5	0.4	0.5
– Sponsor fee income	–	–	2.4	0.7	–	–	1.0	1.3
– Financial advisory fee income	2.0	1.7	2.2	0.6	1.3	2.4	–	–
<b>Fees from asset management services</b>	1.2	1.0	7.1	1.9	0.9	1.7	1.5	1.9
– Asset management fee income	0.8	0.7	5.5	1.5	0.8	1.4	1.0	1.3
– Investment advisory fee income	0.4	0.3	1.5	0.4	0.2	0.3	0.5	0.6
<b>Proprietary trading</b>	43.4	36.2	29.4	8.1	21.0	39.1	–	–
– Debt securities	43.2	36.0	28.4	7.8	20.8	38.7	–	–
– Others	0.2	0.2	1.0	0.3	0.2	0.4	–	–
<b>Total</b>	<b>120.0</b>	<b>100.0</b>	<b>364.3</b>	<b>100.0</b>	<b>53.8</b>	<b>100.0</b>	<b>79.8</b>	<b>100.0</b>

During the years ended 31 December 2014 and 2015, our Company's business growth was mainly derived from (a) the growth in brokerage and loans and financing businesses as a result of active stock trading and market sentiment as evidenced by 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 (b) the increase in active accounts in our securities and futures and options brokerage businesses as a result of the expansion of our sales force of account executives under this segment from three in 2014 to 43 in 2015. We continued to achieve growth in total revenue for the three months ended 31 March 2016 compared to the same period in 2015, which was mainly due to the growth in our margin financing business, although the growth momentum slowed down due to market volatility in 2016 and major global events such as the referendum for withdrawal of the United Kingdom from the European Union. We have managed to realise such growth through our strategies of (a) continuing to enlarge our client base while retaining existing clients through the provision of comprehensive and high quality services; (b) diversifying our revenue sources through enriching our service and product offering; and (c) expanding our Group's financial resources.

---

## SUMMARY

---

### OUR COMPETITIVE STRENGTHS

We believe the following strengths distinguish us from our competitors:

- We are a fast growing securities group with a strong capital base in Hong Kong.
- We benefit from our history as a subsidiary of Industrial Securities and the brand reputation associated with “兴证”.
- We provide full-service offering that is tailored to the varying needs of our clients.
- We have a professional and seasoned team with diversified background.
- We have in place an Employee Share Participation Scheme to align the interests of our eligible employees with our Company and our Shareholders.

For further information, see “Business – Competitive Strengths”.

### OUR BUSINESS STRATEGIES

We aim to continue our rapid growth through the following strategies:

- Optimising our client base by increasing diversification of client sources and offering customised services.
- Continuing to enrich our brokerage and wealth management services.
- Enhancing our asset management, investment banking, institutional sales and research service capabilities.
- Expanding our capital-based intermediary business with our strong capital base.

For further information, see “Business – Business Strategies”.

### HIGHLIGHTS OF RISK FACTORS

There are a number of risks involved in our operations and in connection with the [REDACTED]. These risks can be categorised into (i) risks relating the market in which our Group operates; (ii) risks associated with our business operations; and (iii) risks relating to the [REDACTED]. The following are the highlights of our key risk factors:

- Unfavourable or uncertain economic and market conditions could materially and adversely undermine investors’ confidence, our business, results of operations and prospects.
- Our commission and fee income from brokerage business could be adversely affected by a decrease in trading volume.
- Our brokerage business could be materially and adversely affected by deterioration in the credit quality or default by our clients.
- Our loans and financing business could be materially and adversely affected by the decline in market value of the collateral or client’s default in repayment.
- We had negative operating cash flows for the years ended 31 December 2014 and 2015 and may experience the same after Listing.

For further information, see “Risk Factors”.

## SUMMARY

### SUMMARY OF FINANCIAL INFORMATION AND OPERATIONAL DATA

The following is a summary of the selected items in the consolidated results of our Group for each of the two years ended 31 December 2014 and 2015 and the three months ended 31 March 2016 extracted from the Accountants' Report, the text of which is set out in Appendix I to this document. The audited consolidated results are prepared in accordance with HKFRS on the basis of presentation set out in the Accountants' Report in Appendix I to this document. This summary should be read in conjunction with the Accountants' Report set out in Appendix I to this document.

#### Summary of results of operations

	Year ended		Three months ended	
	31 December		31 March	
	2014	2015	2015	2016
	HK\$	HK\$	HK\$	HK\$
	<i>(unaudited)</i>			
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
	<u>23,119,059</u>	<u>48,069,113</u>	<u>4,898,505</u>	<u>7,578,711</u>
Profit before taxation				
Taxation	(4,347,723)	2,434,920	34,973	(1,782,237)
	<u>18,771,336</u>	<u>50,504,033</u>	<u>4,933,478</u>	<u>5,796,474</u>
Profit for the year/period				

## SUMMARY

The following table sets forth our segment margin<sup>(Note)</sup> for the periods indicated:

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

*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.

For the year ended 31 December 2015, we recorded a negative segment margin of 22.4% on our proprietary trading business, which was 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 in section A of the Accountants' Report in Appendix I for details. As at 31 August 2016, we held debt securities with a total market value of US\$304.6 million which we expect will contribute to our segment performance for the year ending 31 December 2016.

For the three months ended 31 March 2016, we recorded a negative segment margin of 82.9% on our investment banking business mainly for the reason that the revenue under several engagements for our services was yet to be recognised for that period, affecting the profitability derived from this segment. We expect our performance from investment banking business will be improved in the second half of 2016 as we expect we would recognise revenue from our new and existing engagements under this segment subsequent to the Track Record Period.

For the three months ended 31 March 2016, we recorded a negative segment margin of 28.2% on our assets management business, which was due to the absence of inter-segment revenue after the liquidation of our RMB-dominated wholly owned investment fund in the second half of 2015. We expect that the size of our AUM will increase which will contribute to our segment performance of our asset management business in the second half of 2016.

As an additional financial measure to evaluate the impact of our proprietary trading business, for the two years ended 31 December 2014 and 2015, the percentage of our segment results from proprietary trading business to our Group's profit before taxation was 65.9% and (13.7%), respectively. For the three months ended 31 March 2016, we did not hold any investment under our proprietary trading business.

## SUMMARY

### Summary of consolidated statements of financial position

	As at 31 December		As at
	2014	2015	31 March
	HK\$	HK\$	2016
			HK\$
Non-current assets	34,354,775	29,493,613	26,577,424
Current assets	2,103,077,870	4,886,945,812	5,367,841,701
Current liabilities	1,715,724,267	4,416,693,691	4,888,571,449
Net current assets	387,353,603	470,252,121	479,270,252
Non-current liabilities	1,030,468	2,489,749	1,794,877
Net assets	420,677,910	497,255,985	504,052,799
Equity attributable to the owner of the Company	420,677,910	497,255,985	504,052,799

### Summary of consolidated statements of cash flow

	For the year ended		For the three months ended	
	31 December		31 March	
	2014	2015	2015	2016
	HK\$	HK\$	HK\$	HK\$
			<i>(unaudited)</i>	
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	<u>1,162,138,290</u>	<u>1,383,007,928</u>	<u>1,817,679,455</u>	<u>(39,765,821)</u>
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 the year/period	<u>118,348,564</u>	<u>203,186,709</u>	<u>203,186,709</u>	<u>238,022,069</u>
Cash and cash equivalents at end of the year/period	<u><u>203,186,709</u></u>	<u><u>238,022,069</u></u>	<u><u>231,931,695</u></u>	<u><u>235,447,271</u></u>



## SUMMARY

We recorded net cash used in operating activities of HK\$1,063.0 million and HK\$1,339.4 million for the year ended 31 December 2014 and 2015, respectively. The negative operating cash flow was mainly due to the expansion of our business, particularly our margin financing business. Our fast expansion of margin financing business led to large cash outflow of our operating activities 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. Such expansion utilised part of our (i) internal resources as well as (ii) bank borrowings of HK\$986.5 million and HK\$2,416.1 million as at 31 December 2014 and 2015, respectively. We recorded a net increase in cash and cash equivalents of HK\$85.1 million and HK\$34.8 million for the years ended 31 December 2014 and 2015, respectively.

For the three months ended 31 March 2016, we recorded a net cash generated from operating activities of HK\$35.8 million attributable to smaller amount of new margin loan granted during the period. Our total margin loan balance increased to HK\$2,484.6 million as at 31 March 2016. We recorded a net cash used in financing activities of HK\$39.8 million due to the repayment of bank borrowings of HK\$1,490.2 million during the period. We maintained our cash and cash equivalents at the end of the period with a slight net decrease in cash and cash equivalents of HK\$2.6 million.

### Key financial ratios

	For the year ended 31 December		For the three months ended
	2014	2015	31 March 2016 <sup>(8)</sup>
Net profit margin	15.6%	13.9%	7.3%
Return on equity	4.5%	10.2%	4.6%
Return on total assets	0.9%	1.0%	0.4%
	As at 31 December		As at 31 March
	2014	2015	2016
Current ratio	1.2	1.1	1.1
Quick ratio	1.2	1.1	1.1
Gearing ratio ( <i>Note</i> )	234.5%	485.9%	474.0%
Net debt to equity ratio	186.2%	438.0%	427.3%

*Note:* Gearing ratios is bank borrowings as a percentage of total equity as of the end of each financial year/period times 100%.

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.

---

## SUMMARY

---

Our net profit margin for the three months ended 31 March 2015 and 2016 were 9.2% and 7.3%, respectively. Such decrease 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.

Our gearing ratio increased from 234.5% as at 31 December 2014 to 485.9% as at 31 December 2015 mainly due to the 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 the rapid expansion of our margin financing business. As at 31 March 2016, our gearing ratio slightly decreased to 474.0%.

Our Directors are satisfied that we have sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this document, having taken into account the financial resources presently available to us, including (a) unutilised banking facilities which amounted to HK\$5,826.4 million as at 31 July 2016; (b) the capital injections from China Industrial Securities International Holdings, the [REDACTED] Investors and the Eligible Participants pursuant to the Employee Share Participation Scheme, as described in "History, Reorganisation and Group Structure"; (c) cash inflow from our operations; and (d) the estimated net [REDACTED] from the [REDACTED]. To implement prudent risk management, we closely monitor our working capital against market volatility to maintain adequate cash flow and monitor our financial exposure by strict compliance with the financial resources requirements as specified by the FRR.

## SUMMARY

### Summary of key operating data

	Year ended		Three months ended	
	31 December		31 March	
	2014	2015	2015	2016
Securities brokerage trading turnover (HK\$ in millions) for . . . . .	17,927.0	95,634.8	11,689.9	13,074.5
Average brokerage commission rate for securities brokerage for . . . . .	0.12%	0.10%	0.08%	0.12%
Number of contracts executed under futures and options brokerage for . . . . .	485,298	1,588,765	269,936	153,883
Average brokerage commission per futures and options contract (HK\$) for . . . . .	43.4	37.5	36.9	37.6
Total margin loan balance (HK\$ in millions) as at . . .	411.7	2,421.3	653.4	2,484.6
Total market value of collateral held for margin financing (HK\$ in millions) as at . . . . .	1,543.5	8,940.8	2,184.9	8,639.6
Average margin ratio (Note 1) as at . . . . .	26.7%	27.1%	29.9%	28.8%
Total loan balance for money lending (HK\$ in millions) as at . . . . .	157.5	282.3	176.0	264.6
Total market value of collateral held for money lending (HK\$ in millions) as at . . . . .	720.0	1,963.6	997.7	1,881.5
Average loan-to-value ratio for money lending (Note 2) as at . . . . .	21.9%	14.4%	17.6%	14.1%
Value of securities underwritten (HK\$ in millions) . . .	212.2	1,849.1	6.0	606.3
Value of securities placed (HK\$ in millions) . . . . .	300.0	16.5	–	–
Assets under management (HK\$ in millions) as at . . .	817.1	1,664.0	1,529.6	1,650.6
Net gain from proprietary trading (including interest income and dividend income) (HK\$ in millions) for . . . . .	43.4	29.4	21.0	–
Average return from proprietary trading for . . . . .	6.9%	4.4%	3.2%	–

Notes:

1. Average margin ratio is calculated as margin loan balance as at 31 December 2014 and 2015 and 31 March 2015 and 2016 divided by the market value of the collateral held as at the same date.
2. Average loan-to-value ratio for money lending is calculated as total loan balance for money lending as at 31 December 2014 and 2015 and 31 March 2015 and 2016 divided by the total market value of collateral held for money lending as at the same date.
3. We did not hold investment under proprietary trading business during the three months ended 31 March 2016 and hence, no net gain from proprietary trading was recorded during the period.

## **SUMMARY**

---

### **RECENT DEVELOPMENT**

Subsequent to the Track Record Period, Hong Kong and overseas securities markets were, to a certain extent, continued to be impacted by the change in economic cycle of Hong Kong and China and the volatility in the financial market. According to the monthly market highlights published on the website of the Stock Exchange, the level of average daily turnover of Hong Kong stock market for the first eight months ended 31 August 2016 was HK\$67.0 billion, which witnessed a significant decrease compared to HK\$121.5 billion for the same period in 2015. Accordingly, we recorded a decrease in our brokerage commission and fee income due to market volatility for the eight months ended 31 August 2016, compared to the same period in 2015. As at 31 August 2016, our average brokerage commission rate for this period was maintained at the same level as that as at 31 March 2016.

Despite the general market condition, compared to 31 August 2015, our interest and fee income from our loans and financing business for the eight months ended 31 August 2016 increased significantly, which was mainly attributed to (i) our enlarged lending capability which allowed us to maintain a significant size of lending to clients; and (ii) our approach to actively expand our client base for margin clients. Subsequent to 31 March 2016, we continue to adhere to our lending policy and have been able to maintain a stable average margin ratio and loan-to-value ratio. As at 31 August 2016, our average margin ratio and average loan-to-value ratio on an aggregate basis was 30.4% and 12.3%, respectively, which was maintained at more or less the same level as that as at 31 March 2016. The management considers that in the absent of any unforeseen circumstances, our loans and financing business will remain significant relative to our brokerage business going forward.

For our proprietary trading business, subsequent to the Track Record Period, we have been actively seeking appropriate investment opportunity and conducting significant proprietary trading activities. We acquired and held debt securities with a total market value of US\$304.6 million as at 31 August 2016, which we expect will contribute to our revenue under this segment for the year ending 31 December 2016. Of the debt securities investments held by us as at 31 August 2016, most of the investment amount was invested in investment-grade bonds (i.e. bonds rated BBB- or above by international rating agencies) and the remainder was invested in high yield bonds (i.e. bonds rated BB+ or below by international rating agencies). The duration of these bonds are mostly within five years and their coupon rates mostly range from 1.75% to 10.75%. The average investment return of the debt securities held by us since we held the relevant investments up to 31 August 2016 was 4.3%. In addition to debt securities, we also held bond futures with a total face value of US\$12.5 million as at 31 August 2016. Save as the debt securities investments and the bond futures mentioned above, we did not hold other investment under proprietary trading business as at 31 August 2016. See "Business – Our Business – Proprietary trading – Investment strategies" and "Business – Risk Management and Internal Control – Risk management relating to our proprietary trading business" for details of our investment strategies and risk management in relation to our proprietary trading business.

## **SUMMARY**

---

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] Investors and the Eligible Participants pursuant to the Employee Share Participation Scheme. All subscriptions were properly, legally and irrevocably settled in April 2016. For details, see "History, Reorganisation and Group Structure". The completion of the aforesaid corporate events greatly enhances our capital base for further expansion and development of our business.

Our Directors confirm that, as of the Latest Practicable Date and up to the date of this document, there has been no material adverse change in the financial or trading position or the prospects of our Group since 31 March 2016, being the date of our Group's latest audited financial statements as set out in Appendix I to this document.

### **RISK MANAGEMENT AND INTERNAL CONTROL**

We have in place risk management structure and implemented compliance and operational manuals, which contain credit policies, operating procedures and other internal control measures for monitoring, evaluating and managing our exposure and various risks during the ordinary course of our business activities. For details see "Business – Risk management and internal control". We engaged an independent internal control consultant to conduct an internal control review on our Group in December 2015. For details, see "Business – Independent review of internal control system".

### **REGULATORY COMPLIANCE**

Our Directors have confirmed that we have obtained all material licenses, permits or certificates necessary to conduct our business operations from the relevant governmental bodies in Hong Kong and that we were in material compliance with applicable laws during the Track Record Period and up to the Latest Practicable Date. For details of our regulatory compliance, see "Business – Regulatory compliance".

### **OUR SHAREHOLDERS**

#### **Our Controlling Shareholders**

Immediately following completion of the [REDACTED] and the [REDACTED], Industrial Securities, Industrial Securities (Hong Kong) and China Industrial Securities International Holdings will continue to be our Controlling Shareholders for the purpose of the GEM Listing Rules. Each of the Controlling Shareholders confirms that it does not hold or conduct any business which competes, or is likely to compete, either directly or indirectly, with our business upon [REDACTED]. For further information, see "History, Reorganisation and Group Structure" and "Relationship with the Controlling Shareholders".

---

## SUMMARY

---

### **[REDACTED] Investments**

Our Company and China Industrial Securities International Holdings, our Controlling Shareholder, entered into a share subscription agreement with each of the eight [REDACTED] Investors. Each of the subscriptions pursuant to the [REDACTED] Investment Agreements were properly, legally and irrevocably settled on or by 22 April 2016 and completed on 26 April 2016. Immediately after completion of the [REDACTED] and the [REDACTED] and assuming the [REDACTED] is not exercised, the aggregate shareholding of the [REDACTED] Investors will represent [REDACTED] of the issued share capital of our Company. To the best of the knowledge, information and belief of our Directors, the ultimate beneficial owners of each of the [REDACTED] Investors are independent of, and not connected with, our Company or any of our subsidiaries and connected persons. For further information, see “History, Reorganisation and Group Structure – Introduction of [REDACTED] Investors” and “History, Reorganisation and Group Structure – Corporate and Shareholding Structure of Our Group after the Completion of the [REDACTED] and the [REDACTED]”.

### **Employee Share Participation Scheme**

Industrial Securities (Hong Kong) has adopted the Employee Share Participation scheme for the purpose of establishing a mechanism to align the interests of its employees and our management team with those of our shareholders to promote our Group’s strategies and growth. In connection with the Employee Share Participation Scheme, our Company has issued and allotted a total of [REDACTED] ES Shares for a total consideration of [REDACTED] for potential award of the ES Shares (or the proceeds from sale of the ES Shares) which has been irrevocably settled. The ES Shares represent approximately [REDACTED] of the issued share capital of our Company immediately upon completion of the [REDACTED] and the [REDACTED] and assuming the [REDACTED] is not exercised. For further information, see “History, Reorganisation and Group Structure – Employee Share Participation Scheme”.

---

## SUMMARY

---

### OUR CLIENTS

We serve a diverse base of clients, including individual, corporate and institutional entities. Our major clients are mainly high net worth individuals (i.e. client with investment portfolio exceeding HK\$1 million) and corporate clients. Our clients are mainly individual investors and based in the PRC. For the two years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, our largest client accounted for 8.3%, 6.7% and 9.8% of our total revenue, respectively. During the same period, revenue attributable to our top five customers in aggregate amounted to 25.3%, 21.1% and 19.6%, respectively, of our total revenue.

### USE OF [REDACTED]

Assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the indicative [REDACTED] range), the net [REDACTED] from the [REDACTED] are estimated to be approximately HK\$[REDACTED] million, after deducting the [REDACTED] commission and estimated [REDACTED] expenses in the aggregate amount of approximately [REDACTED] in connection with the [REDACTED]. Subject to prevailing market conditions, we intend to use the net [REDACTED] from the [REDACTED] (assuming the [REDACTED] is not exercised) in the following manner:

- approximately 40%, or HK\$[REDACTED] million, for expansion of our loans and financing business;
- approximately 20%, or HK\$[REDACTED] million, for development of our proprietary trading business, primarily for investment in fixed-income assets;
- approximately 10%, or HK\$[REDACTED] million, for development of our capital-based intermediary business, including but not limited to market making for stocks and bonds, derivatives, foreign exchange and commodity transactions, financing related to mergers, acquisitions and reorganisations, and private equity investments;
- approximately 8%, or HK\$[REDACTED] million, for development of our asset management business, including but not limited to hiring experienced personnel, expanding our investment channels and seeking for cooperation opportunities to explore the global investment platform;
- approximately 8%, or HK\$[REDACTED] million, for development of our investment banking business, including hiring experienced personnel and increasing capital support for our fund raising services;
- approximately 4%, or HK\$[REDACTED] million, for development of our institutional sales capabilities, including hiring experienced sales personnel; and
- the remaining amount, or approximately 10%, or HK\$[REDACTED] million, for our working capital and other general corporate purposes.

For further information of the use of [REDACTED], see "Future Plans and Use of [REDACTED]".



---

## SUMMARY

---

### [REDACTED] STATISTICS

All statistics in this table are based on the assumption that the [REDACTED] would not be exercised:

	Based on the [REDACTED] of HK\$[REDACTED] per [REDACTED]	Based on the [REDACTED] of HK\$[REDACTED] per [REDACTED]
Market capitalisation of the Shares ( <i>Note 1</i> )	[REDACTED]	[REDACTED]
Unaudited pro forma adjusted net tangible asset value per Share after [REDACTED] Shares Issuance, [REDACTED] and [REDACTED] ( <i>Note 2</i> )	[REDACTED]	[REDACTED]

*Notes:*

1. *The calculation of the market capitalisation is based on 4,000,000,000 Shares expected to be in issue following the completion of the [REDACTED] and the [REDACTED].*
2. *The unaudited pro forma adjusted consolidated net tangible asset value per Share has been arrived at after making the adjustments referred to in "A. Unaudited pro forma statement of adjusted consolidated net tangible assets" in Note 4 to Appendix II to this document and on the basis of 4,000,000,000 Shares (being the number of Shares in issue, Shares issued in April 2016, the [REDACTED] and Shares to be issued upon [REDACTED]).*

### [REDACTED] EXPENSES

[REDACTED] expenses represent professional fees, [REDACTED] commissions and other fees incurred in connection with the [REDACTED] and [REDACTED]. Assuming an [REDACTED] of [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 [REDACTED], of which [REDACTED] is directly attributable to the issue of the [REDACTED] to the public and to be capitalised, and [REDACTED] has been or is expected to be reflected in our consolidated statements of profit or loss and other comprehensive income. [REDACTED] of the [REDACTED] expenses 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].



## **SUMMARY**

---

### **DIVIDEND**

No dividends had 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.

### **ELIGIBILITY FOR [REDACTED] ON THE MAIN BOARD**

Based on the audited consolidated financial statements of Industrial Securities (Hong Kong) (i.e. the holding company of the operating subsidiaries of our Group prior to the Reorganisation), Industrial Securities (Hong Kong) recorded a net loss for the year ended 31 December 2013. We recorded such loss at the time as we were still in our initial stage of development and incurred significant expenses on our operations. Based on the above, our Directors are of the view that our Company would not be able to meet the profit requirement under Main Board Listing Rule 8.05(1)(a) and hence, not be eligible to apply for a [REDACTED] on the Main Board, as the pro forma aggregated profit attributable to shareholders in respect of the two years preceding the most recent year would be less than HK\$30 million.

---

## DEFINITIONS

---

*Unless the context otherwise requires, the following expressions have the following meanings in this document. Certain other terms are explained in the section headed "Glossary of Technical Terms".*

"AMLO" or "Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance" the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (Chapter 615 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

[REDACTED]

"Articles" or "Articles of Association" the articles of association of our Company adopted on 27 July 2016, which will become effective upon the [REDACTED], as amended from time to time, a summary of which is set out in Appendix III to this document

"associate(s)" has the meaning ascribed to it under the GEM Listing Rules

"Audit Committee" the audit committee of the Company

"Board of Directors", "Board" or "our Board" the board of Directors

"Business Day" a day (other than a Saturday, Sunday or public holiday or a day which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is hoisted) on which licensed banks in Hong Kong are generally open for normal banking business

"[REDACTED]" [REDACTED] referred to in "Appendix IV Statutory and general information – A.3 Written resolutions of our Shareholders passed on 27 July 2016" in this document

"CCASS" the Central Clearing and Settlement System established and operated by HKSCC

---

## DEFINITIONS

---

[REDACTED]

“China Industrial Securities International Holdings” or “CISI Holdings”	China Industrial Securities International Holdings Limited, a company incorporated on 20 July 2015 in the Cayman Islands with limited liability under the laws of the Cayman Islands, whose sole shareholder is Industrial Securities (Hong Kong) and a controlling shareholder of the Company
“CISI Asset Management”	China Industrial Securities International Asset Management Limited (興證國際資產管理有限公司) (formerly known as Industrial Securities (Hong Kong) Asset Management Limited (興證(香港)資產管理有限公司)), a company incorporated under the laws of Hong Kong on 31 October 2011 with limited liability and wholly-owned subsidiary of our Company
“CISI Brokerage”	China Industrial Securities International Brokerage Limited (興證國際證券有限公司) (formerly known as Industrial Securities (Hong Kong) Brokerage Limited (興證(香港)證券經紀有限公司)), a company incorporated under the laws of Hong Kong on 20 July 2011 with limited liability and wholly-owned subsidiary of our Company
“CISI Capital”	China Industrial Securities International Capital Limited (興證國際融資有限公司) (formerly known as Industrial Securities (Hong Kong) Capital Limited (興證(香港)融資有限公司)), a company incorporated under the laws of Hong Kong on 16 August 2012 with limited liability and wholly-owned subsidiary of our Company

---

## DEFINITIONS

---

“CISI Finance”	China Industrial Securities International Finance Limited (興證國際財務有限公司) (formerly known as Industrial Securities (Hong Kong) Finance Limited (興證(香港)財務有限公司), a company incorporated under the laws of Hong Kong on 28 October 2013 with limited liability and wholly-owned subsidiary of our Company
“CISI Futures”	China Industrial Securities International Futures Limited (興證國際期貨有限公司) (formerly known as Industrial Securities (Hong Kong) Futures Limited (興證(香港)期貨有限公司), a company incorporated under the laws of Hong Kong on 18 January 2012 with limited liability and wholly-owned subsidiary of our Company
“CISI Investment”	China Industrial Securities International Investment Limited (興證國際投資有限公司) (formerly known as Industrial Securities (Hong Kong) Investment Limited (興證(香港)投資有限公司)), a company incorporated under the laws of Hong Kong on 29 May 2014 with limited liability and currently a subsidiary of our Company
“CISI Wealth Management”	China Industrial Securities International Wealth Management Limited (興證國際私人財富管理有限公司) (formerly known as Industrial Securities (Hong Kong) Wealth Management Limited (興證(香港)私人財富管理有限公司), a company incorporated under the laws of Hong Kong on 21 April 2015 with limited liability and wholly-owned subsidiary of our Company
“close associates(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Code of Conduct”	the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission, as issued by the SFC from time to time
“Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time

---

## DEFINITIONS

---

“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (WUMP) Ordinance” or “Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	China Industrial Securities International Financial Group Limited, a company incorporated on 21 July 2015 with limited liability under the laws of the Cayman Islands
“connected person(s)” or “core connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it in the GEM Listing Rules and unless the context requires otherwise, for the purpose of our Company, refers to Industrial Securities, Industrial Securities (Hong Kong) and China Industrial Securities International Holdings
“Deed of Non-competition”	the deed of non-competition undertaking dated 28 September 2016 entered into by our Controlling Shareholders in favour of our Group, particulars of which are set out in “Relationship with the Controlling Shareholders” in this document
“Director(s)” or “our Directors”	the director(s) of our Company
“Dragon Power”	Dragon Power Group Holdings Limited, a company incorporated in the British Virgin Islands with limited liability which is owned by Mr. Li San Yim and Ms. Ngai Ngan Ying and is the Independent Third Party
“electronic application instruction”	instruction given by a [REDACTED] electronically via [REDACTED] to [REDACTED], being one of the methods to apply for the [REDACTED]
“Employee Share Participation Scheme”	the employee share participation scheme adopted by Industrial Securities (Hong Kong)

---

## DEFINITIONS

---

“ES Shares”	the Shares issued and allotted pursuant to the Employee Share Participation Scheme
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an industry research consultant and is the Independent Third Party
“Frost & Sullivan Report”	the independent industry report dated September 2016 commissioned by our Company and prepared by Frost & Sullivan
“FRR”	the Securities and Futures (Financial Resources) Rules (Chapter 571N of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Fusion International”	Fusion International (Singapore) Pte Ltd, a company incorporated in Singapore as a limited private company
“Futures Exchange”	the Hong Kong Futures Exchange Limited
“FVTPL”	fair value through profit or loss
“FY2014”	the financial year ended 31 December 2014
“FY2015”	the financial year ended 31 December 2015
“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited as amended, supplemented or otherwise modified from time to time
“GEM Website”	the Internet website at <a href="http://www.hkgem.com">www.hkgem.com</a> operated by the Stock Exchange for the purposes of GEM

[REDACTED]

---

## DEFINITIONS

---

“Group”, “our Group”, “we”, “our” and “us”

our Company and its subsidiaries at the relevant time or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors

“Hao Kang Financial”

Hao Kang Financial Holdings (Group) Limited (豪康金融控股(集團)有限公司) (formerly known as Hao Yin International Holdings Limited 豪銀國際控股有限公司), a company incorporated in Hong Kong with limited liability which is owned as to 70% by Mr. Chen Jiaqiang and as to 30% by Ms. Yang Zhiying and is the Independent Third Party

[REDACTED]

“HKAS”

the Hong Kong Accounting Standards

“HKFRS”

the Hong Kong Financial Reporting Standards issued by HKICPA

“HKICPA”

the Hong Kong Institute of Certified Public Accountants

[REDACTED]

“HK\$” or “Hong Kong dollars”

Hong Kong dollars and cents respectively, the lawful currency of Hong Kong

“Hong Kong”

the Hong Kong Special Administrative Region of the PRC

## DEFINITIONS

---

[REDACTED]

“ICV”	Intelligence Creation Value Limited, a company incorporated in the British Virgin Islands with limited liability on 26 January 2016, whose entire issued share capital is held by Equity Trustee Limited in its capacity as trustee of Intelligence Creation Trust
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the GEM Listing Rules) any Directors, chief executive or substantial shareholders of our Company, its subsidiaries or their respective associates



---

## DEFINITIONS

---

“Industrial Securities”	興業證券股份有限公司 (Industrial Securities Co., Ltd.*), a company established under the laws of the PRC on 30 June 1994 with limited liability whose shares are listing on Shanghai Stock Exchange (stock code: 601377) and the Controlling Shareholder of our Company and together with its subsidiaries, the “Industrial Securities Group”
“Industrial Securities (Hong Kong)”	Industrial Securities (Hong Kong) Financial Holdings Limited (興證(香港) 金融控股有限公司), a company incorporated under the laws of Hong Kong on 5 July 2011 with limited liability whose sole shareholder is Industrial Securities and a Controlling Shareholder of our Company
“Industrial Securities (Shenzhen)”	興證諮詢服務(深圳)有限公司 (Industrial Securities Consultancy Service (Shenzhen) Company Limited*), a company established under the laws of the PRC on 25 November 2013 with limited liability and currently a subsidiary of Industrial Securities (Hong Kong)
“INED(s)”	independent non-executive director(s) or, in the context of our Company, our independent non-executive Director(s)
“Intelligence Creation Trust”	the Intelligence Creation International Employee Share Trust, a discretionary trust founded by ICV with the eligible participants of the Employee Share Participation Scheme as beneficiaries

[REDACTED]

## **DEFINITIONS**

---

[REDACTED]

“Joint Sponsors”

China Industrial Securities International Capital Limited  
and Haitong International Capital Limited

---

## DEFINITIONS

---

“Latest Practicable Date”	21 September 2016, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information contained in this document
“Licensing Court”	the court responsible for determination of applications for granting or renewing of Money Lenders Licences

[REDACTED]

“Main Board”	the Main Board operated by the Stock Exchange
“Memorandum of Association”	the memorandum of association of our Company (as amended from time to time), adopted at its incorporation on 21 July 2015, a summary of which is set out in Appendix III to this document
“MLO” or “Money Lenders Ordinance”	the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Money Lenders Licence”	the money lenders licence issued by the Licensing Court pursuant to the Money Lenders Ordinance and Money Lenders Regulations for carrying on money lending business in Hong Kong
“Money Lenders Regulations”	the Money Lenders Regulations (Chapter 163A of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Money Space”	Money Space Inc., a company incorporated in the British Virgin Islands with limited liability which is owned as to 65% by Mr. Jiang Jinzhi and as to 35% by Ms. Tang Hua and is the Independent Third Party
“Nomination Committee”	the nomination committee of the Company

---

## DEFINITIONS

---

[REDACTED]

“On Ride”	On Ride Investments Limited, a company incorporated in the British Virgin Islands with limited liability which is wholly-owned by Mr. Li To and is the Independent Third Party
“ORSO”	the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

[REDACTED]

“PRC” or “China”	the People’s Republic of China, which for the purpose of this document and for geographical reference only, excludes Hong Kong, Macau and Taiwan
“PRC Government”	the government of the PRC including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and governmental organisation
“[REDACTED]”	Hao Kang Financial, Dragon Power, Money Space, Fusion International, Sushine, On Ride, Supreme Faith and Teda Holdings, each a [REDACTED], collectively [REDACTED]

---

## DEFINITIONS

---

[REDACTED]

“Registrar of Money Lenders”	the person appointed under the Money Lenders Ordinance for the purposes of establishing and maintaining the register of money lenders, who currently is the Registrar of Companies in Hong Kong
“Remuneration Committee”	the remuneration committee of the Company
“Reorganisation”	the reorganisation arrangements undertaken by our Group in preparation for the [REDACTED], which are described in more detail in the section headed “History, Reorganisation and Group Structure” and Appendix IV to this document

[REDACTED]

“RMB”	Renminbi, the lawful currency of the PRC
“Securities and Futures (Client Money) Rules”	the Securities and Futures (Client Money) Rules, (Chapter 571I of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

---

## DEFINITIONS

---

“Securities and Futures (Client Securities) Rules”	the Securities and Futures (Client Securities) Rules (Chapter 571H of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Securities and Futures (Insurance) Rules”	the Securities and Futures (Insurance) Rules, (Chapter 571AI of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) having a par value of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	holder(s) of Shares of our Company from time to time
	<b>[REDACTED]</b>
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the GEM Listing Rules, unless the context otherwise requires
“Substantial Shareholder(s)”	has the meaning ascribed to it in the GEM Listing Rules and details of our Company’s substantial shareholders are set out in the section “Substantial Shareholders” in this document
“Supreme Faith”	Supreme Faith Investment Limited (信日投資有限公司), a company incorporated in Hong Kong with limited liability, which is a wholly-owned subsidiary of China Eco-Farming Limited, a company listed on the GEM (stock code: 8166) and is the Independent Third Party
“Sushine”	Sushine Holdings Limited, a company incorporated under the laws of the British Virgin Islands, which is jointly owned by Mr. Choi Lim Chi, Mr Cui Weizhen, Mr. Zhong Shan, Ms. Zhao He, Mr. Li Binfeng and Ms. Hui Min, all of which being Independent Third Parties

---

## DEFINITIONS

---

"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers, as amended, supplemented or otherwise modified from time to time
"Teda Holdings"	Teda Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, which is wholly-owned by Mr. Li Lei and is the Independent Third Party
"Track Record Period"	the financial period comprising the two financial years ended 31 December 2015 and the three months ended 31 March 2016
"U.K."	the United Kingdom

[REDACTED]

"United States" or "U.S."	the United States of America
"US\$" or "US dollars"	United States dollars, the lawful currency of the United States

[REDACTED]

"%"	per cent.
-----	-----------

*The English names of the PRC laws, rules, regulations, nationals, entities, governmental authorities, institutions, facilities, certificates and titles etc. mentioned in this document are translations from their Chinese names and are for identification purpose only. If there is any inconsistency between the Chinese names and their English translations, the Chinese names shall prevail. The provision of English translation of company names in Chinese language which are marked with "\*" is for identification purposes only.*

## DEFINITIONS

---

*Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

*Unless otherwise specified, all times refer to Hong Kong time and references to years in this document are to calendar years.*



---

## GLOSSARY OF TECHNICAL TERMS

---

“AUM”	the amount of assets under management
“B shares”	foreign invested shares that are traded on the Shanghai Stock Exchange or Shenzhen Stock Exchange in US dollars or Hong Kong dollars
“CAGR”	compound annual growth rate
“CBBC”	callable bull/bear contract
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“DCASS”	the Derivatives Clearing and Settlement System, the clearing and settlement system for the derivatives products of the HKEX
“ETF”	exchange-traded fund
“Exchange Participant”	corporation licensed to carry out Type 1 (dealing in securities) regulated activity under the SFO who, in accordance with the rules of the Stock Exchange, may trade on or through the Stock Exchange and whose name is entered in a list, register or roll kept by the Stock Exchange as a person who may trade on or through the Stock Exchange
“FATCA”	the Foreign Account Tax Compliance Act
“FFI”	foreign financial institution
“high net worth client”	client with investment portfolio exceeding HK\$1 million
“HKATS”	the Hong Kong Futures Automated Trading System
“HKCC”	the HKFE Clearing Corporation Limited
“HKEX”	the Hong Kong Exchanges and Clearing Limited
“IGA”	the intergovernmental agreement signed between Hong Kong and the U.S. for implementation of FATCA
“IPO”	initial public offering
“IRS”	the U.S. Internal Revenue Service

---

## GLOSSARY OF TECHNICAL TERMS

---

“Licensed Representative(s)”	an individual who is granted a licence under section 120(1) or 121(1) of the SFO to carry on one or more than one regulated activity
“loans and financing”	a segment of our business transaction in which a securities firm provides financing to qualified clients who pledge their securities and/or other acceptable security as collateral
“M&A”	mergers and acquisitions
“MPF”	the Mandatory Provident Fund
“NAV”	Net Asset Value
“Prime Rate”	the rate of interest that banks charge their creditworthy customers for borrowing money
“QDII”	Qualified Domestic Institutional Investor (合格境內機構投資者)
“QFII”	Qualified Foreign Institutional Investor (合格境外機構投資者)
“Responsible Officer(s)”	a Licensed Representative who is also approved as a responsible officer under section 126 of the SFO to supervise one or more than one regulated activity of the licensed corporation to which he/she is accredited
“RQFII”	Renminbi Qualified Foreign Institutional Investor (人民幣合格境外機構投資者), a pilot program launched in the PRC which allows Hong Kong subsidiaries of the PRC brokerage companies and fund houses to facilitate investments of offshore Renminbi into the PRC capital markets
“SAC”	the Securities Association of China (中國證券業協會)
“SEOCH”	The SEHK Options Clearing House Limited
“Stock Exchange Trading Right”	a right to be eligible to trade on or through the Stock Exchange as an Exchange Participant and entered as such a right in a list, register or roll kept by the Stock Exchange
“T+2”	two trading days from the relevant transaction day

---

## FORWARD-LOOKING STATEMENTS

---

This document contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. The forward-looking statements are contained principally in the sections headed "Summary", "Risk Factors", "Industry Overview", "Business", "Financial Information" and "Future Plans and Use of [REDACTED]" in this document. These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under the section headed "Risk Factors" in this document, which may cause our actual results, performance or achievements to be materially different from performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and operating plans;
- our capital expenditure and expansion plans;
- our ability to identify and successfully take advantage of new business development opportunities;
- our dividend policy; and
- our profit estimate and other prospective financial information.

The words "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "seek", "will", "would" and the negative of these terms and other similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of uncertainties and factors, including but not limited to:

- any changes in the laws, rules and regulations of the government relating to any aspect of our business or operations;
- general global economic, market and business conditions;
- inflationary pressures or changes or volatility in interest rates, foreign exchange rates or other rates or prices;
- various business opportunities that we may pursue; and
- the risk factors discussed in this document as well as other factors beyond our control.

## **FORWARD-LOOKING STATEMENTS**

---

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this document are qualified by reference to the cautionary statements set forth in this section as well as the risks and uncertainties discussed in the section headed "Risk Factors" in this document.

---

## RISK FACTORS

---

[REDACTED] should consider carefully all the information set forth in this document and, in particular, should consider the following risks and special considerations in connection with an investment in our Company before making any investment decision in relation to our Company. The occurrence of any of the following events may have a material adverse effect on the business, results of operations, financial conditions and prospects of our Group. The trading price of the Shares could decline due to any of these risks, and you may lose all or part of your investment.

### RISKS RELATING TO THE MARKET IN WHICH OUR GROUP OPERATES

#### **Unfavourable or uncertain economic and market conditions could materially and adversely undermine investors' confidence, our business, results of operations and prospects**

Our business is highly dependent on the global and local market conditions. The slowdown of Hong Kong and the PRC economy, plunge in crude oil and commodities prices and fluctuations in interest and foreign exchange rates may materially undermine the business and result of operations of entities listed on the Stock Exchange. Hong Kong and China's stock markets and market indices have been experiencing significant fluctuation since the second quarter of 2015.

Adverse changes in general economic or financial conditions would increase the volatility of the securities market, thereby weakening investors' confidence in and reducing securities trading, margin financing and corporate finance activities, which, in turn, would materially and adversely affect the commission and fee income from our brokerage business, interest income from our loans and financing business and underwriting commission, financial advisory fee and sponsor fee from our investment banking business. We may also experience decrease in the asset management fees we earn from our asset management business during the period of adverse economic and market conditions due to the reduced value of our asset management portfolio and opportunity to realise investment value from our investments and increased client redemptions. There is no assurance that global and local capital market conditions would not change suddenly and dramatically, as a result of which our business, financial conditions and results of operations may fluctuate from time to time.

Unfavourable market conditions and market volatility could also lead to an increase in the risk of default in the margin financing and loans that we have provided to our clients, material reduction in value of the collateral provided and consequently adversely impact our overall financial performance.

Subsequent to 31 December 2015, Hong Kong and overseas securities markets were continued to be, to a certain extent, impacted by the change in economic cycle of Hong Kong and China, the volatility in the financial market and other international crisis such as the referendum for withdrawal of the United Kingdom from the European Union and various terrorist attacks in Europe. As a result, we recorded a decline in our futures brokerage commission and fee income due to the decrease in trading turnover of futures and options

---

## **RISK FACTORS**

---

contracts by our clients for the three months ended 31 March 2016, compared to the same period in 2015. As our business is subject to the performance of the Hong Kong securities market and on global market conditions, there is no assurance that our historical growth is reflective of our future growth or that we will be able to maintain the same level of growth as before under uncertain or unstable economic conditions.

**Our business operations are concentrated in Hong Kong and any material deterioration in the economic, political and regulatory environment in Hong Kong could materially and adversely affect our business and prospects**

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. For the risks associated with any adverse change or uncertainty in local economic and market condition, see "Risks relating to the market in which our Group operates – Unfavourable or uncertain economic and market conditions could materially and adversely undermine investors' confidence, our business, results of operations and prospects" above. Further, events with adverse impact on investors' confidence and risk appetites, such as riots or mass civil disobedience movements and general deterioration of local economy, may lead to a reduction in investment or trading activities and in turn our business performance. Any adverse change in local economic, social and political environment, which is beyond our control, may lead to a prolonged period of sluggish market activities which would in turn have adverse impact on our business and operating performance.

**If we are unable to compete effectively against competitors in our business lines, our business, financial conditions, results of operations and prospects may be materially and adversely affected**

The financial service industry in Hong Kong has a large number of participants which makes the industry highly competitive. According to Frost & Sullivan, up to 30 June 2016, there were 582 trading right holders registered in the Hong Kong Exchanges and Clearing Limited, which comprised 530 trading Exchange Participants, 36 non-trading Exchange Participants and 16 non-exchange participants. New participants may enter into the industry as long as they obtain the requisite licences and permits.

We will have to compete against competitors who may have greater brand recognition in the market, stronger human and financial resources, a wider range of services and longer operating histories than that of us. Apart from large multinational financial institutions, we also face competition from local medium and small-sized financial services firms which offer similar range of services. There is no assurance that we will be able to maintain our competitive strengths by responding rapidly to the changing business environment or to capture new market opportunities. Any intensified competition may result in further downward pressure on brokerage commission rate and fees charged for the services provided by us, which in turn may erode our market share and have material and adverse impact on our profitability and results of operations.

---

## **RISK FACTORS**

---

### **Hong Kong financial industry is highly regulated and ongoing compliance with the rules and regulations could be costly**

The industry in which we are operating is highly regulated. Our business and operations are subject to a number of laws and regulations relating to the securities and financial services industry, including the SFO, the subsidiary legislations of the SFO, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, The Codes on Takeovers and Mergers and Share-Buy-Backs, the Listing Rules, the Stock Exchange Trading Rules, the MLO and other codes and guidelines published by the regulators from time to time. These laws and regulations set out the licensing requirements, regulate our operational activities and standards, impose the requirements to maintain minimum liquid capital and such other filing and reporting obligations relevant to our business operations. See “Regulatory Overview – Regulatory environment in Hong Kong” for details. There might be changes in rules and regulations and regulatory initiatives from time to time in response to the changing regulatory and market environments. Any such changes or initiatives might result in an increase in our cost of compliance, increase our liquid capital requirements or might restrict our business activities or future expansion. In case if we fail to comply with the applicable rules and regulations, it might result in fines, or even suspension or revocation of some or all of our licences for carrying on our business activities. Accordingly, our cost of operations might be materially and adversely affected by any change in regulatory environment.

We are subject to regulatory inspections from time to time. If the results of the inspections reveal serious misconduct, the SFC may make further investigations and take disciplinary actions, including revocation or suspension of licences, public or private reprimand or imposition of pecuniary penalties against us, our Responsible Officers or Licensed Representatives. Any such disciplinary actions taken against us, and/or our Directors, Responsible Officers or Licensed Representatives, relevant staff or management involved could have an adverse impact on our business, reputation and results of operations.

### **RISKS ASSOCIATED WITH OUR BUSINESS OPERATIONS**

#### **Our commission and fee income from brokerage business could be adversely affected by a decrease in trading volume**

A significant portion of our total revenue is generated from our brokerage commission and fee income under our brokerage business. For the two years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, commission and fee income from our brokerage business amounted to HK\$45.3 million, HK\$175.2 million and HK\$23.9 million, respectively, representing 37.7%, 48.1% and 30.0%, respectively of our total revenue for the same period. While it is our strategy to continue to expand our business lines and diversify our product and service offerings, our brokerage business is expected to be one of our main sources of revenue. Commission and fee income from our brokerage business depends, to a large extent, on the trading volume executed through our trading system.

## **RISK FACTORS**

---

Similar to other brokerages and financial services firms, trading volume of the investors in the stock markets as a whole in the past have been, and in the future may continue to be, materially affected by a number of factors, many of which are beyond our control, including one or a combination of the following:

- the effects of market conditions in Hong Kong, China and overseas, particularly in the securities, commodities, futures, fixed-income, equity and credit markets;
- general political conditions in Hong Kong, China and overseas, such as macroeconomic and monetary policies, legislation and regulations affecting the financial industry and securities market;
- changes in clients' hedging or speculative trading activities in the markets;
- fluctuations in interest rates and commodity prices;
- change in investors' sentiment, perception and confidence in the financial markets; and
- inflation, natural disasters, riots and acts of war or terrorism.

Fluctuation in the trading volume by our client through our trading system would result in reduced brokerage commissions and fees income, thereby materially and adversely affect our financial conditions and results of operations.

### **Our brokerage business could be materially and adversely affected by deterioration in the credit quality or default by our clients**

As stipulated by HKSCC, brokerage clients shall settle their securities transactions within T+2. However, in the case that any of our clients are unable to settle the transaction within T+2, we will be required to settle on behalf of such clients using our own resources. For details of our Group's accounts receivable from cash clients, see note 21 to the Accountants' Report set out in Appendix I. We need to maintain sufficient resources for the abovementioned settlements and are exposed to potential default in payment by our clients. For futures brokerage, the Futures Exchange sets out the minimum margin deposit required for trading of each futures contract and our clients are required to maintain at all times the minimum margin deposit which may vary from time to time as determined by the Futures Exchange and our policy. When a client is unable to meet a margin call, we will close out the position of the relevant futures contract. Should any outstanding balance in the client's account remain unpaid following the closing of the position of the futures contract or realisation of the collateral which require further recovery efforts, we will suffer a loss.

Although we regularly evaluate our credit exposure to specific clients, default risks could arise from unexpected events or circumstances. There is no assurance that our clients would not default on their obligations to us as a result of bankruptcy, lack of liquidity or other reasons. With respect to clients referred to us by the account executives, even though our responsible



---

## **RISK FACTORS**

---

account executives have agreed to indemnify us against unsettled trade or margin loan balance due from the relevant clients pursuant to our agreement signed with them, there is also no assurance that the relevant account executives will have sufficient financial resources to compensate us for any loss in case the relevant clients default in his or its obligations. We may also fail to receive all information regarding the financial position of our clients which may impair our ability effectively to detect any prospective default of our clients in the performance of their respective obligations. In the event that our clients fail to meet their payment obligations for the securities transacted through us, our financial conditions and results of operations may be materially and adversely affected.

### **Our loans and financing business could be materially and adversely affected by the decline in market value of the collateral or client's default in repayment**

We provide margin financing to clients to finance their purchase of securities and provide advances through money lending to clients to address their financing needs. For the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, our total loan balance for margin financing was HK\$411.7 million, HK\$2,421.3 million and HK\$2,484.6 million, respectively, and our total loan balance for money lending was HK\$157.5 million, HK\$282.3 million and HK\$264.6 million, respectively (among which nil, nil and HK\$2.0 million, respectively, was unsecured loan as at the same dates). Our loans and financing services provided to our clients are required to be backed by sufficient collaterals and further security (if any) when we make the loans or advances, except where we agree to provide unsecured loan for money lending client. We maintain a list of approved securities quoted on the Stock Exchange which are eligible as collateral. We may also accept securities traded on foreign exchanges or bonds on a case-by-case basis after review by the management of our Company. In case of margin financing, we will send margin calls to clients where we notice that the ratio of the outstanding margin loan to the value of the collateral provided by the relevant client has reached our approved ratio. We will also issue margin call when the value of the collateral provided by a particular client is considered to be insufficient to cover our exposure with respect to the loan granted to that client. In case of secured money lending, during the term of the loan, if based on our assessment the value of the collateral is considered to be insufficient to cover our exposure or the actual loan-to-value ratio exceeds our approved loan-to-value ratio, we may require our clients to bring the loan-to-value ratio back to our acceptable level. Clients are required to fulfil the margin call (in case of margin financing) or to bring the loan-to-value ratio (in case of money lending) back to an acceptable level by depositing additional funds, selling securities, pledging additional securities to top up the market value of the collateral or providing further security (as the case may be). As at 31 December 2014, 31 December 2015 and 31 March 2016, the total market value of securities pledged as collateral in respect of the loans to margin clients were HK\$1,543.5 million, HK\$8,940.8 million and HK\$8,639.6 million, respectively. During the same period, the total market value of securities pledged as collateral in respect of the secured loans to money lending clients were HK\$720.0 million, HK\$1,963.6 million and HK\$1,881.5 million, respectively.

While we have internal policies and procedures designed to minimise the risk associated with our loans and financing business, as the scale of this business line continues to grow, we are exposed to higher credit risk and hence larger potential loss should we fail to identify and

---

## RISK FACTORS

---

manage the risk effectively. There is no assurance that we will be able to identify potential client's default in a timely manner or that our policies and procedures designed to minimise such risk are adequate or effective. If our client is unable to fulfil our margin calls or meet his or its payment obligations in a timely manner, we may choose to enforce our rights to mandatorily liquidate the securities held by us as collateral or take debt collection action in accordance with our agreement signed with our client and realise the collateral, where necessary. In the event that at the time when we enforce our rights to liquidate or realise the collateral, the market price of collateral held by us decreases significantly or that they become illiquid for whatever reason in a short period of time such that the value of the collateral falls below the value of our loan advanced to our client, we will be exposed to significant losses if we fail to liquidate the positions of our clients in a timely manner. Our ability to sell assets to minimise our loss may be further impaired if other market participants are seeking to sell similar assets at the same time, as is likely to occur in a liquidity stress or other market crisis. For unsecured loan under money lending business, such loan has different risk profile compared to loans that are secured, and our ability to recover from the borrower of unsecured loan upon default is more limited. Upon default of such borrower, we may have to apply for a court order to attach the assets, such as land, property and machinery, of the default borrower and resort to legal proceedings to enforce our unsecured interests against his assets.

Further, as we mainly accept and hold listed securities provided by our clients as collateral in our loans and financing business, this exposes us to concentration risk and market risk which may arise from holding particular assets or asset classes in such business segment. Any significant decline in the market value of such assets may adversely affect our financial conditions and results of operations.

**We had negative operating cash flows for the years ended 31 December 2014 and 2015 and may experience the same after [REDACTED]**

We recorded net cash used in operating activities of HK\$1,063.0 million and HK\$1,339.4 million for the years ended 31 December 2014 and 2015, respectively. The negative operating cash flow was mainly due to the expansion of our business, particularly our margin financing business, which is capital intensive and involve substantial operating cash outflows. Our fast expansion of margin financing business led to large cash outflow of our operating activities for the years ended 31 December 2014 and 2015, and such trend may continue after [REDACTED] as our loans and financing business continues to expand and we plan to allocate 40% of our net [REDACTED] from the [REDACTED] for developing loans and financing segment.

As we intend to actively expand our loans and financing business, we cannot assure you that we will be able to generate positive cash flows from operating activities in the future. Negative operating cash flows may materially and adversely affect our liquidity and financial conditions, and we cannot assure you that we will have sufficient cash from other sources to fund our operations. If we resort to other financing activities to generate additional cash, we will incur financing costs and we cannot assure you that we will be able to obtain the financing on terms acceptable to us, or at all.

---

## RISK FACTORS

---

### **Our interest income and expenses may be adversely affected by the fluctuation in interest rates**

We generate interest income from our loans and financing business. During the Track Record Period, the interest rates charged by us were determined with reference to, among others, the prevailing market rate (i.e. Hong Kong dollar Prime Rate). Interest income is directly linked to the prevailing market interest rates, and during periods of rising interest rates, our interest income from clients under loans and financing segment would increase. There is no assurance that the Prime Rate will not change dramatically for reasons beyond our control, as a result of which our interest income may fluctuate from time to time. On the other hand, during the Track Record Period, we sourced external borrowing to finance our loans and financing business. We make profit from the interest spread between interest revenue from our loans and financing business and our interest expenses from our bank borrowings. If the source of funding is changed and if interest rates increase significantly, our interest expenses may increase and our return on interest income may decrease, as a result of which our business and results of operations may be adversely affected.

### **We may incur losses or fail to realise the anticipated returns from our proprietary trading activities as a result of unfavourable market conditions or our failure in predicting the performance of our target investment**

For the years ended 31 December 2014 and 2015, we engaged in the trading of debt and equity securities through proprietary funding for our own account and recorded a net gain on financial assets at FVTPL (including interest income and dividend income) of HK\$43.4 million and HK\$29.4 million, respectively. For the three months ended 31 March 2016 we did not hold any investment under proprietary trading segment and hence, no income was recorded. Subsequent to the Track Record Period, we have been actively seeking appropriate investment opportunity and we acquired and held debt securities with total market value of US\$304.6 million as at 31 August 2016, which we expect will contribute to our revenue under this segment for the year ending 31 December 2016. We also plan to allocate 20% of the net [REDACTED] from the [REDACTED] for development of our proprietary trading business, primarily for investment in fixed-income assets. For details on our proprietary trading activities, see "Business – Our business – Proprietary trading".

Our proprietary trading activities is subject to market volatility, and subsequently, the profitability of these investments generally correlates with the performance of the Hong Kong, China and overseas securities markets. We cannot assure that the profitability of our proprietary trading business will be profitable in the future.

Further, the values of our financial assets are marked to market. Unrealised losses will be recognised if the carrying value of the financial assets is lower than its market value, which will have a negative impact on our results of operations. If we recognise such unrealised losses, our results of operations could be materially and adversely affected.

The performance of our proprietary trading activities primarily depends on our investment decisions and judgment, which are subject to management discretion and assumptions. For investments in financial products, if we fail to evaluate investment products

---

## RISK FACTORS

---

properly or our forecasts of the market do not conform to actual changes in market conditions, our proprietary trading may not achieve the investment returns we anticipated or may even suffer material losses. Such material losses could materially and adversely affect our business, financial conditions and results of operations.

### **Our investment banking business is subject to various risks associated with underwriting of securities, listing sponsorship and financial advisory**

We provide investment banking services, including fund raising services (such as equity and debt securities underwriting), listing sponsorship and financial advisory services. Revenue derived from our investment banking business accounted for 16.8%, 7.0% and 1.8% of our total revenue for the years ended 31 March 2014 and 2015 and the three months ended 31 March 2016, respectively. Fund raising activities such as secondary offering or IPO are generally subject to market conditions, compliance reviews and approvals by the regulators such as the Stock Exchange and the SFC, which are factors beyond our control and such factors may substantially affect or even result in the delay or abortion of the transactions in which we are engaged as an underwriter, placing agent, financial advisor or sponsor. If a project in which we are engaged as an underwriter, placing agent, financial advisor or sponsor is not completed as scheduled or at all for any reason, we may not receive payment for our services in a timely manner, or at all, which may materially and adversely affect our results of operations and financial conditions. In addition, if we fail to sell the securities we have underwritten, we would suffer reputational damage, incur expenditure, expose ourselves to market risk and reduce capital available to us as a result of purchasing and holding the underwritten securities, thereby materially and adversely affecting our results of operations and financial conditions. Further, our commission income on fund raising is directly related to the number of underwriting and placing transactions in which we are involved and/or the size of fund our clients intend to raise. Such factors are susceptible to market conditions which are beyond our control.

The performance of our listing sponsorship and financial advisory business under our investment banking segment depends, to a large extent, on our ability to leverage our business network and relationships to source clients and the general market conditions. Since our sponsor fee and financial advisory fee are negotiated on a project-by-project basis, fees generated therefrom may fluctuate from time to time. There is no assurance that the clients which previously sought advice from us will continue to retain us for future businesses. There is also no assurance that the level of business or amount of fees agreed will be comparable to the transactions effected in the past. If we are not able to win new sizable mandates, or if the market conditions become unfavourable, our business and results of operations may be materially and adversely affected.

### **Our asset management fees could decline if the investments we manage perform poorly, or our clients withdraw assets we manage or if we lose clients**

We receive annual management fees primarily based on the asset size under our management and performance fee based on the return on our investment products. Investment performance affects our AUM and is one of the most important factors in retaining our clients

---

## **RISK FACTORS**

---

and competing for new asset management business. Limited investment opportunities and hedging strategies in Hong Kong, as well as market volatility, could negatively affect our ability to provide stable returns for our clients, cause us to lose clients and require us to make provisions for the decrease in the value of our investments. Poor investment returns for our clients in our investment management business, due to either general economic and market conditions or underperformance relative to our competitors by the assets or funds that we manage or investment products that we design or sell, could adversely affect our ability to retain existing assets and to attract new clients or additional assets from existing clients. Unsatisfactory investment performance could adversely affect our revenue and growth:

- existing clients might withdraw funds from our asset management business in favour of better performing products provided by our competitors, which would result in lower asset management income for us;
- clients may request that we lower our fees for asset management services, particularly in an intensely competitive industry; and
- our performance fees, which are based on a percentage of investment returns, would decline.

In addition, increasing competition from other securities firms, banks, insurance companies, fund managers and other competitors could prevent us from maintaining or increasing our AUM. We are in the process of developing and growing our asset management business. If we fail to increase our AUM, we may not be able to take advantage of potential benefits, such as economies of scale and investment strategies with larger capital requirements. This lack of scale could adversely affect our ability to compete and our results of operations and financial conditions.

### **The financial products that we distribute could be risky and/or complex investments and our failure to identify, appreciate or disclose such risks could negatively affect our reputation, client relationships and prospects**

We distribute insurance and investment products developed by third-parties. These products often have complex structures and involve various risks, including credit risks, market risks, liquidity risks and counter-party risks. We are required to make appropriate risk disclosure to our potential clients to ensure that financial products to be sold to them match their financial sophistication and risk-return profile. There is no assurance that our risk management policies and procedures would be effective in mitigating the risk exposure of our clients in all market environments or against all kinds of risks. In the event that we fail to identify and fully appreciate such risks or we fail to disclose such risks to our clients or we sell unsuitable products to our clients and our clients suffer financial loss as a result, we may be subject to litigation and/or regulatory actions, and our business, reputation, client relationships and prospects may be materially and adversely affected.

### **We are subject to various risks associated with our expansion plan**

As set out in more details in "Business – Business strategies" and "Future Plans and Use of [REDACTED]" in this document, we intend to implement various strategies such as optimising our client base, continuing to enrich our services, enhancing our service capability,

---

## RISK FACTORS

---

and expanding our capital-based intermediary businesses, and we intend to apply the [REDACTED] from our [REDACTED] to the expansion and development of our various businesses, subject to market conditions. Such plan is formulated based on current intentions and assumptions and the future execution may be subject to capital investment and human resources constraints. Furthermore, our future development plan may be hindered by other factors beyond our control, such as the general market conditions, the performance of the securities market and the economic and political environment in Hong Kong, China and overseas. Therefore, there is no assurance that our expansion plan will materialise in accordance with the timetable, or at all, or will generate the intended benefits to us as initially anticipated.

In addition, as our business and client base continue to expand, our trading volume, the frequency and complexity of the transactions handled by us and our clients' expectation from our services will also increase. To support our business expansion, we have to continually enhance and upgrade our trading and information systems, recruit qualified staff and increase staff training. System enhancements and updates, as well as related trainings, entail significant costs and expose us to the risks associated with implementing and integrating new systems. Any limitation on our trading system and our inability to expand our execution capacity to accommodate our growth could limit our business expansion, thereby adversely affecting our business, results of operations and prospects.

### **We face increased risks as we offer new products and services, transact with a broader array of clients and counterparties and expose ourselves to new asset classes and markets**

As the markets in which we operate continue to evolve, we continue to respond by expanding our business, innovating new products or services and adjusting our strategies accordingly. New business initiatives often result in new products and services or transactions with individuals or entities that are not our traditional clients or counterparties. These business activities expose us to new risks, including credit risk, market risk and counter-party risk, or when dealing with less sophisticated counterparties and investors or dealing in a new market, greater regulatory scrutiny and increased credit and operational and market risks.

### **We have incurred losses for certain business segments during the Track Record Period and may suffer further loss for certain business segments**

We have incurred losses for certain business segments during the Track Record. Segment margin for our proprietary trading segment was -22.4% for the year ended 31 December 2015. For the three months ended 31 March 2016, segment margin for our investment banking and asset management segments were -82.9% and -28.2%, respectively. See "Financial information – Results of operation – Business segment margins" for further details and the underlying reasons for such losses. We cannot assure you we will be able to achieve profitability from our business in the future or at the same level as we did in the past. If we fail to manage the profitability of our business segments, our overall profitability and results of operations may materially and adversely affect.



## **RISK FACTORS**

---

**There is no assurance that we will be able to obtain sufficient capital to fund our business operations, expansion plan and growth in the future, or on acceptable terms**

Maintaining adequate liquidity is essential to our business. For the years ended 31 December 2014 and 2015, we recorded negative cash flow in operating activities of HK\$1,063.0 million and HK\$1,339.4 million, respectively. For details of the reasons attributed to the negative cash flow in operating activities during the Track Record Period, see "Financial Information – Liquidity and capital resources". We rely on bank and other external borrowings to fund a significant portion of our working capital requirements, particularly our loans and financing business which has high capital requirements. There is no assurance that we will be able to obtain adequate financing on acceptable terms, or at all, or to generate sufficient working capital to fund our future operations. Our ability to obtain additional capital on acceptable terms will be subject to a variety of uncertainties, including:

- investor perceptions of and appetite for securities of companies engaged in the industry in which we are operating our business;
- conditions in the capital and financial markets in which we may seek to raise funds;
- our future cashflows, financial conditions and results of operations; and
- economic, political and other conditions in Hong Kong, China and the rest of the world.

We may be required to scale back our planned capital expenditures, which may adversely affect our ability to achieve economies of scale and implement our planned growth strategy. If we raise additional funding, our interest and debt repayment obligations will increase. The terms of any future debt facilities may also impose restrictive covenants that may restrict our business and operations or result in dilution of shareholding of the Shareholders in the case of equity financing. Our inability to raise additional funds in a timely manner and on terms favourable to us, or at all, may have a material adverse effect on our financial conditions, results of operations and prospects.

---

## RISK FACTORS

---

### **Our level of indebtedness may materially and adversely affect our business and limit our growth**

As of 31 December 2014 and 2015 and 31 July 2016, our total indebtedness amounted to HK\$986.5 million, HK\$2,416.1 million and HK\$3,538.6 million, respectively. Such amount represents the amount drawn by our Group under the banking facilities of HK\$1,960.0 million, HK\$7,265.0 million and HK\$9,365.0 million, respectively, made available to our Group. See "Financial Information – Working capital – Indebtedness" for details. Our financial conditions, liquidity and business operations could be adversely affected to the extent we are unable to repay our debt in a timely manner. Even if we are able to meet our debt service obligations, our level of indebtedness could adversely affect us in a number of ways, including the following:

- limiting our ability to obtain any future financing needed for working capital, strategic investment, debt service requirements or other purposes;
- limiting our flexibility in planning for or reacting to changes in our business;
- placing us at a competitive disadvantage with competitors that have lower levels of debt;
- increasing our financing costs;
- making us more vulnerable to a downturn in our business or the economy generally; subjecting us to the risk of being forced to refinance our debts at higher interest rates; or
- requiring us to use a substantial portion of our cash to pay principal and interest on our debt instead of for other purposes such as working capital and other capital requirements.

### **Our results of operations may be adversely affected if we lose a large number of existing clients and we fail to expand our client source**

For the two years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, our top five clients accounted for, in aggregate, 25.3%, 21.1% and 19.6% of our total revenue. Of our five clients, most of them are based in China and are individual clients. Their level and extent of the business relationship with us are affected by factors such as their financial conditions, market perceptions and risk appetite which are in turn subject to the general economic conditions in China and their respective business performance, which are beyond our control.

Whilst we will continue to diversify our client base, we expect that our results will continue to depend on (a) our ability to continue to secure business from our existing clients and attract new clients; (b) the financial conditions of our clients; and (c) factors that affect Hong Kong and PRC economy in general. There is no assurance that we will be able to



## **RISK FACTORS**

---

successfully diversify our client base or attract new clients or maintain or improve our relationships with our existing clients, who do not have long term commitments with us, and as such any of them may terminate their respective relationships with us. There is also no assurance that we will be able to generate the same or higher level of business and income from our clients as before. Any significant decrease in the level of business with our major clients or loss of a large number of existing clients and our inability to diversify or expand our client base could have an adverse impact on our business, results of operations and prospects.

### **Our business depends on the continuing efforts of our executive Directors, key senior management and personnel**

Our business depends on the continued services of our executive Directors, key senior management and employees. Our executive Directors, together with the support of our senior management team, are principally responsible for strategic planning as well as managing our business development and daily operations. In particular, the skills and expertise contributed by our key executives have played a crucial role in building our success and reputation to date. Therefore, our success is, to a significant extent, attributable to the strategies and visions of our executive Directors as well as our senior management team.

Our ability to compete in our existing market and expand into new market or develop new business line also depends on our ability to retain competent personnel, especially the account executives whose established client network and rich industry know-how have allowed us to effectively expand our client base to date. Given that the competition for competent personnel in the industry is intense, we may not be able to attract or retain the services of key personnel for our business in the future. If we lose any key senior management or key personnel, there is no assurance that we will be able to find suitable replacements in a timely manner, or at all. These personnel may join our competitors which may further intensify market competition. As a result, our operations, prospects and profitability could be materially and adversely affected. In addition, as we continue to expand, we may need to incur additional costs to recruit, train and retain these key personnel to support our business expansion and future plans, which will further increase our staff cost. For example, we recruit from time to time competent investment personnel for managing, monitoring and operating our proprietary trading business, which is expected to expand rapidly in near future along with our business growth. Our inability to recruit or retain competent investment personnel would limit the capacity of our investment team, affect the commercial soundness of our investment decisions and reduce the effectiveness of our risk identification and control, thereby adversely affecting the performance of our proprietary trading segment.

As at 31 March 2016, we had totally 15 Responsible Officers. Under the licensing requirements of the SFO, we must at all times maintain at least two Responsible Officers for each regulated activity. We may be exposed to operational disruptions should a large number of the Responsible Officers resign or all become sick and cannot carry out their duties at the same time. This may result in temporary suspension of the licence or imposition of additional licensing conditions and eventually cessation of our business operations. The occurrence of such event will materially and adversely affect our business and results of operations.

---

## **RISK FACTORS**

---

### **Our operations will be materially and adversely affected if we fail to obtain or maintain or renew licences and permits necessary for our business operations**

Our business and continuing operations depend upon obtaining and maintaining the necessary approvals, licenses and permits obtained from regulatory authorities. See “Regulatory Overview – Regulatory environment in Hong Kong” for details. We are required to comply with the relevant regulatory requirements and licensing conditions prescribed by regulatory authorities, such as “fit and proper” requirements with respect to our Responsible Officers and Licensed Representatives, financial resources requirements, risk management, corporate governance, professional staff, corporate structure and compliance operations. Our compliance obligations will be subject to scrutiny in particular when we apply for approvals, licenses or permits for conducting new businesses or offering new products. If we fail to continuously comply with such requirements, we may encounter the risks of being sanctioned by the regulatory authority, imposition of additional licensing conditions, or in the extreme case, disqualified for our existing business or rejected for renewal of our qualifications upon expiry by the regulatory authorities.

In respect of any new business or new product that we contemplate to develop, there is no assurance that we will be able to obtain the relevant approvals, licenses or permits before we launch such new business or product, as we may not possess the required qualification or resources to comply with the relevant regulations. As a result, we may fail to develop our new business as planned or we may fall behind our competitors in such business or lose our existing clients.

### **We may be exposed to substantial liability as a result of significant legal proceeding or claims against us**

We face significant legal risks in our business, and the volume and amount of claims in litigation and regulatory proceedings against licensed corporations could be high. These risks include potential liabilities under securities or other laws for material false or misleading statements made in connection with securities or other transactions, potential liabilities for the advice provided to clients in corporate transactions and possible disputes over the terms and conditions of trading arrangements. We may also be subject to claims for alleged negligent conduct, breach of fiduciary duty or breach of contract. These risks often may be difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time.

We may be a party to legal proceedings arising from the ordinary course of our business. Actions brought against us may result in settlements, injunctions, fines, penalties or other results adverse to us that could harm our reputation. Even if we are successful in defending ourselves against these actions, the costs of such defence may be significant to us. In market downturns, the number of legal claims and amount of damages sought in litigations and regulatory proceedings may increase. A significant judgment, arbitration award or regulatory action against us, or a disruption in our operation arising from adverse adjudications in proceedings against our Directors, senior management or key personnel would materially and adversely affect our business, financial conditions, results of operations and reputation.

## **RISK FACTORS**

---

### **We may fail to effectively detect illegal or improper activities including frauds and money laundering by our Directors, employees, account executives, clients or other third parties**

We are subject to the risk of fraud, illegal act or misconduct committed by our Directors, employees, account executives, agents, clients or other third parties. Misconduct includes entering into unauthorised transaction, improperly using or divulging inside information, recommending transactions not suitable for our clients, engaging in fraudulent activities, or engaging in improper or illegal activities or excessive trading to the detriment of us or our clients. There is no assurance that our Directors, employees, account executives, agents, clients or other third parties would not commit incidents of fraud or other misconduct in the future, and such incidents may result in regulatory sanction against us and cause us to suffer financial loss and reputational harm. We may also need to incur costs to commence and participate into any legal proceedings against them to recover our loss.

We are required to comply with applicable anti-money laundering laws and regulations in Hong Kong, for example, the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance and "Guideline on Anti-Money Laundering and Counter-Terrorist Financing" issued by the SFC which has become effective since July 2012. These laws and regulations require us, among other things, to carry out client due diligence and to report suspicious transactions to the applicable regulatory authorities. Whilst we have policies and procedures aiming at detecting and preventing the use of our operations for money laundering activities and other illegal or improper activities, it is not always possible to detect fraud or other misconduct by Directors, employees, account executives, agents, clients or other third parties. Our internal control procedures designed to monitor our regulatory compliance may not be able to identify all incidents of non-compliance or suspicious transactions in a timely manner or at all. To the extent that we fail to identify such misconducts or improper activities in a timely manner, or at all, any regulatory sanction or enforcement action against us could adversely affect our business, results of operations and reputation.

### **Our failure to appropriately identify and address conflicts of interest could materially and adversely affect our business**

As we expand the scope of our business and our client base, it is critical for us to be able to address potential conflicts of interest, including situations where two or more interests within our business legitimately exist but are in competition or conflict. We may encounter conflicts of interest arising among (i) our various business units, (ii) our clients and us, (iii) our various clients, (iv) our employees or account executives and us or (v) our clients and our employees or account executives. See "Business – Risk management and internal control – Conflict of interests" for details of our internal policy regarding conflicts of interest.

In light of the complexity and difficulty in appropriately identifying and dealing with potential conflicts of interest, our internal control procedures that are designed to identify and address conflicts of interest may not be sufficient. Our failure to manage conflicts of interest could harm our reputation and erode client confidence in us. In addition, potential or perceived conflicts of interest may also give rise to litigation or regulatory actions. The occurrence of any of the foregoing events could materially and adversely affect our business, results of operations and reputation.

## **RISK FACTORS**

---

### **We may suffer significant losses arising from trading errors in processing transactions, system failure or cyber-attacks**

Our brokerage business is dependent on our ability to process and monitor a larger number of transactions, which involves complicated operational procedures and requires stable performance of our trading system. There is no assurance that we will not experience trading errors such as errors in processing client's instructions (incorrect securities name, quantity of the transaction or incorrect buy/sell order, etc.) or incorrect input of client's instructions or client's account number. Any error in processing transactions may adversely affect the markets, our clients and counterparties and our business.

The inability of our systems to accommodate an increasing volume of transactions could also limit our business expansion opportunities. We must continually upgrade our systems to support our operations and growth and to respond to changes in regulations and markets, which could be costly. We must also make significant investments in our system and staff training to ensure that transactions do not violate applicable laws and regulations.

Our operations depend on the secured processing, storage and transmission of confidential and other information in our computer systems and networks and we are vulnerable to unauthorised access such as cyber-attacks, computer viruses or other malicious programs and other events that could lead to a security breach. There is no assurance that our information technology infrastructure will be adequate to prevent all types of unauthorised access such as a cyber-attack, computer viruses or other malicious programs and other events that could disrupt our information technology and operating systems. The occurrence of one or more such events could jeopardise the confidentiality of information processed, stored in and transmitted through our computer systems and networks or otherwise disrupt our operations, which could result in reputational damage, litigation and financial loss.

Our trading, financial, accounting, data processing or other operating systems and facilities may also fail to operate properly or become disabled as a result of events which are wholly or partially beyond our control, such as human error, natural disasters, power failures, computer viruses, cyber-attacks, spam attacks, unauthorised access and data loss or leakage. We also face the risk of operational failure or termination of any of the clearing agents, exchanges, clearing houses or other financial intermediaries that we use to facilitate securities transactions. Any operational failure or termination of the financial intermediaries that we use could adversely affect our ability to execute transactions, service our clients and manage our exposure to risk. Moreover, as our interconnectivity with clients grows, we also face increasing risks related to operational failures and the security of clients' systems.

### **We have a relatively short track record in our business operation and our historical financial results may not be indicative of our future performance**

We began our business in 2012 and recorded significant growth during the Track Record Period. For the years ended 31 December 2014 and 2015, our total revenue increased from HK\$120.0 million to HK\$364.3 million, respectively, representing a year-to-year growth of 203.6%. Due to the limited operating history and therefore the limited available financial data

---

## RISK FACTORS

---

of our business, there may not be a sufficient basis on which potential investors in the Shares could assess our future results of operations and prospects. As a result, we cannot assure that we will be able to successfully grow our business or generate the same level of profit or revenue as before or as we initially expected. Further, for wealth management business which we have commenced operation since December 2015, as this new line of business is at an early stage of development, given its limited operation history, even though the team is led by our personnel with sufficient industry experience, we cannot assure that we will be able to operate efficiently and accurately estimate its profitability and growth prospects, as well as to effectively identify and manage the risks particular to that business.

### **We may suffer from potential reputational damage associated with any adverse impact on the reputation or business operations of Industrial Securities**

Being an offshore subsidiary of Industrial Securities, our reputation is in part associated with the brand reputation of Industrial Securities. Capitalising on the established reputation and brand influence of Industrial Securities in the PRC, we are able to effectively establish local market presence, increase client's confidence in our services and grow our client base within a short period after commencement of our business in Hong Kong in 2012. However, given our relationship with Industrial Securities, our reputation may be susceptible to any adverse development of or scandal or negative publicity about, or any regulatory enforcement action taken against, Industrial Securities, which are beyond our control.

On 9 July 2016, Industrial Securities published an announcement on the Shanghai Stock Exchange in relation to, amongst others, the result of the investigation conducted by the CSRC, which was related to the breach of Industrial Securities' obligations as a sponsor to a company listed in the PRC. Accordingly, Industrial Securities was fined and a portion of income received from its sponsorship services business and underwriting activities was confiscated by the CSRC. In addition, two of Industrial Securities' sponsor representatives were fined and disqualified from engaging in the securities business by the CSRC. The CSRC has also given a "Class B Grade BBB" rating to Industrial Securities in 2016, compared with the "Class A Grade AA" rating given in 2015. As a result, we may suffer from reputational damage arising from the adverse results of such investigation and enforcement actions taken against Industrial Securities.

### **Industrial Securities has substantial control over us and its interests may not be aligned with the interests of our other shareholders**

Upon completion of the [REDACTED], Industrial Securities, Industrial Securities (Hong Kong) and China Industrial Securities International Holdings will remain as our Controlling Shareholders. Our Controlling Shareholders may be able to exert significant influence over our business, including over the election of Directors, the amount and timing of dividends and other distributions, mergers or acquisitions with other entities and other business strategies and policies. The interests of our Controlling Shareholders may not be consistent with the interests of our other Shareholders. To the extent the interests of our Controlling Shareholders conflict with the interests of other Shareholders, the interests of other Shareholders may be disadvantaged or harmed.

## **RISK FACTORS**

---

### **Any change in tax laws and regulations may adversely affect our results of operations**

We carry out our business operations primarily in Hong Kong and hence, we are subject to the tax laws and regulations in Hong Kong. In addition to Hong Kong, we may also be subject to the taxation in other jurisdiction(s) such as PRC as we trade or invest in the financial products issued in such jurisdiction(s). See note 13 to the Accountant's Report in Appendix I to this document for details. There is no assurance that the prevailing tax laws and regulations applicable to us or our business activities will not be revised or amended in the future. Any revision in or amendment to such tax laws and regulations may have an adverse impact on our results of operation.

### **The application of HKFRS 9 and its amendments in the future may affect the classification and measurement of our financial assets and financial liabilities**

The application of HKFRS 9 and its amendments in the future may affect the amounts reported in respect of our Group's financial assets. The HKICPA, which is responsible for developing and revising accounting standards in Hong Kong, issued HKFRS 9 and its amendments in 2009, 2010, 2013 and 2014, which will take effect on 1 January 2018 and replace the information related to classification, measurement and derecognising of financial assets and financial liabilities under HKAS 39, and give rise to substantial changes in the classification and measurement of financial assets and financial liabilities. The application of HKFRS 9 may have an impact on amounts reported in respect of our Group's financial assets (e.g. impairment on accounts receivable and loans receivable) resulting from early provision of credit losses based on the expected credit loss model. However, it is not practicable to provide a reasonable estimate of that effect until our Group performs a detailed review. For more details, see note 3 to the Accountants' Report in Appendix I to this document.

### **The application of HKFRS 15 in the future may affect the timing of revenue recognition**

The application of HKFRS 15 in the future may affect the timing of revenue recognition. The HKICPA issued HKFRS 15 and its amendment in 2016, which will take effect on 1 January 2018 and supersede the current revenue recognition guidance including HKAS 18, HKAS 11 and the related interpretations. The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition. More prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. For more details, see note 3 to the Accountants' Report in Appendix I to this document. Our Directors anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported (e.g. revenue generated from investment banking and asset management business) as the financing of revenue recognition may be affected by the new standard. However, it is not practicable to provide a reasonable estimate of that effect of HKFRS 15 until our Group performs a detailed review.

## **RISK FACTORS**

---

**RISKS RELATING TO THE [REDACTED]**

**[REDACTED]**

## **RISK FACTORS**

---

**[REDACTED]**



## **RISK FACTORS**

---

**[REDACTED]**

**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

---

**[REDACTED]**

**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

---

**[REDACTED]**

**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

---

**[REDACTED]**

**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

---

**[REDACTED]**

---

## **WAIVER FROM COMPLIANCE WITH THE GEM LISTING RULES**

---

For the purpose of the [REDACTED], our Company has sought a waiver, as described below, from the Stock Exchange in relation to certain requirements under the GEM Listing Rules.

### **CONTINUING CONNECTED TRANSACTIONS**

The Company has entered into and is expected to continue certain transactions under a service agreement with Industrial Securities (Shenzhen), which will constitute non-exempt continuing connected transactions of our Company under the GEM Listing Rules upon the [REDACTED]. Our Company has applied to the Stock Exchange for a waiver from strict compliance with the requirements regarding the announcement and independent shareholders' approval in respect of such non-exempt continuing connected transactions under Chapter 20 of the GEM Listing Rules. The details of such waiver are set out in the section headed "Connected Transactions" of this document.

The Stock Exchange has granted a waiver from strict compliance with the applicable requirements under Rules 20.33 and 20.34 of the GEM Listing Rules as mentioned above and our Company will comply with the relevant requirements of Chapter 20 of the GEM Listing Rules, including Rules 20.32, 20.49, 20.50, 20.51, 20.53, 20.54, and 20.69 of the GEM Listing Rules. Further details of such waiver are set out in "Connected Transactions" of this document.

---

## DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

---

### DIRECTORS

Name	Residential Address	Nationality
Mr. Lan Rong (蘭榮)	No. 2-506 Bei Da Xin Cun, Gu Lou District, Fu Zhou City, Fujian Province, PRC	Chinese
Ms. Zhuang Yuanfang (莊園芳)	Room 501, No. 400A, Pu Dian Road, Pudong New District, Shanghai City, PRC	Chinese
Mr. Huang Jinguang (黃金光)	Room 4, 21/F, Block C, Dragon Court, 6 Dragon Terrace, Hong Kong	Chinese
Mr. Wang Xiang (汪詳)	Flat E, 26/F, Yat Tien Mansion, 18B Taikoo Shing Road, Taikoo Shing, Horizon Gardens, Hong Kong	Chinese
Ms. Zeng Yanxia (曾艷霞)	Flat G, 6/F, Heng Tien Mansion, 2 Tai Fung Avenue, Taikoo Shing, Horizon Gardens, Hong Kong	Chinese
Ms. Hong Ying (洪瑛)	Room E, 66th Floor, Block 6, Grand Promenade, 38 Tai Hang Street, Sai Wan Ho, Hong Kong	Chinese
Mr. Tian Li (田力)	Flat H 39/F, Block 3, Coastal Skyline, 12 Tung Chung Water Front Road, Tung Chung Lantau, New Territories, Hong Kong	Hong Kong
Mr. Qin Shuo (秦朔)	No. 171, Alley 2255, Luoshan Road, Pudong New District, Shanghai City, PRC	Chinese

Further information of our Directors are disclosed in the section headed "Directors, Senior Management and Staff" of this document.

---

**DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]**

---

**PARTIES INVOLVED IN THE [REDACTED]**

**Joint Sponsors**

**China Industrial Securities International  
Capital Limited**

30/F, AIA Central  
1 Connaught Road Central  
Hong Kong

**Haitong International Capital Limited**

22/F, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

[REDACTED]



---

**DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]**

---

[REDACTED]

---

**DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]**

---

[REDACTED]

**Legal advisers to our Company as to Hong Kong law**

**King & Wood Mallesons**  
13/F, Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

**Gallant**  
5/F, Jardine House  
1 Connaught Place  
Central  
Hong Kong

**Legal adviser to our Company as to Cayman Islands law**

**Ogier**  
11/F Central Tower  
28 Queen's Road Central  
Central  
Hong Kong

[REDACTED]

**Auditors and reporting accountants**

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
35th Floor, One Pacific Place  
88 Queensway  
Hong Kong

**DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]**

---

**Compliance adviser**

**Haitong International Capital Limited**

22/F Floor, Li Po Chun Chambers

189 Des Voeux Road Central

Hong Kong

[REDACTED]

---

## CORPORATE INFORMATION

---

<b>Registered office</b>	PO Box 1350, Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
<b>Principal place of business in Hong Kong</b>	32/F, Infinitus Plaza 199 Des Voeux Road Central Hong Kong
<b>Company's website</b>	<b><u><a href="http://www.xyzq.com.hk">www.xyzq.com.hk</a></u></b> <i>(Note: information on this website does not form part of this document)</i>
<b>Company secretary</b>	<b>Mr. Cho Ka Wai (HKICPA)</b> Room 1412, Kam Chun House Tung Chun Court Shaukeiwan Hong Kong
<b>Authorised representatives</b>	<b>Ms. Zeng Yanxia (曾艷霞)</b> Flat G, 6/F, Heng Tien Mansion, 2 Tai Fung Avenue, Taikoo Shing, Horizon Gardens, Hong Kong  <b>Mr. Cho Ka Wai (曹家偉)</b> Room 1412, Kam Chun House Tung Chun Court Shaukeiwan Hong Kong
<b>Audit committee</b>	Ms. Hong Ying (洪瑛) ( <i>Chairlady</i> ) Ms. Zhuang Yuanfang (莊園芳) Mr. Tian Li (田力)
<b>Remuneration committee</b>	Mr. Tian Li (田力) ( <i>Chairman</i> ) Mr. Lan Rong (蘭榮) Mr. Qin Shuo (秦朔)
<b>Nomination committee</b>	Mr. Lan Rong (蘭榮) ( <i>Chairman</i> ) Mr. Tian Li (田力) Mr. Qin Shuo (秦朔)

## CORPORATE INFORMATION

---

[REDACTED]

### Principal bankers

**Bank of China (Hong Kong) Limited**

33/F, Bank of China Tower

1 Garden Road

Hong Kong

**Industrial Bank Co., Ltd. Hong Kong  
Branch**

39/F, ICBC Tower CitiBank Plaza

3 Garden Road

Central

Hong Kong

**Wing Lung Bank Limited**

Wing Lung Bank Building

45 Des Voeux Road Central

Hong Kong

---

## INDUSTRY OVERVIEW

---

*The information that appears in this section has been prepared by Frost & Sullivan and reflects estimates of market conditions based on publicly available sources and trade opinion surveys, and is prepared primarily as a market research tool. References to Frost & Sullivan should not be considered as the opinion of Frost & Sullivan as to the value of any security or the advisability of investing in our Company. Our Directors believe that the sources of information contained in this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. Our Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. Our Directors confirm that, after taking reasonable care, there is no adverse change in the market information since the date of the commissioned research report which may qualify, contradict or have an impact on the information in this section.*

*The information prepared by Frost & Sullivan and set out in this section has not been independently verified by us, the Joint Sponsors, the Joint [REDACTED] or any other party involved in the [REDACTED] and they do not give any representations as to its accuracy or correctness and accordingly it should not be relied upon in making, or refraining from making, any investment decision.*

### ABOUT THIS SECTION

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

### About Frost & Sullivan

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

### Research methodology and assumptions

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

## INDUSTRY OVERVIEW

### OVERVIEW OF THE HONG KONG CAPITAL MARKET

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

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

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

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

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

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

#### Exchange participants

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

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

#### Stock market

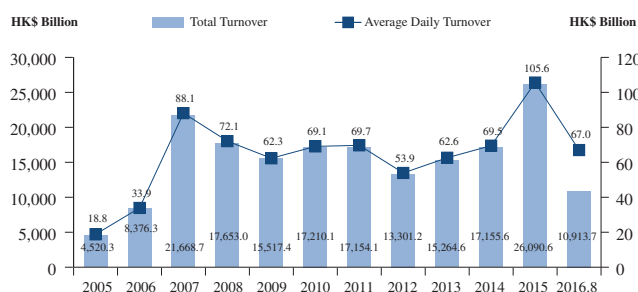
Total market turnover increased dramatically in 2007 due to the announcement of the introduction of Hong Kong Stock Market Through-Train Program by State Administration of Foreign Exchange (SAFE) in August 2007. However, the postponement of the program by the State Council of China in November and the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

## INDUSTRY OVERVIEW

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

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

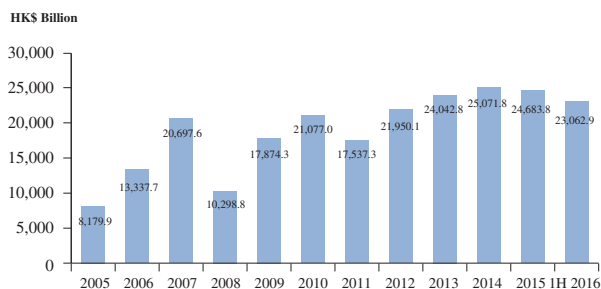
### Total turnover and average daily turnover of Hong Kong stock market, 2005-August 2016



Source: SFC; Frost & Sullivan

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

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



Source: SFC; Frost & Sullivan

### Futures and options market

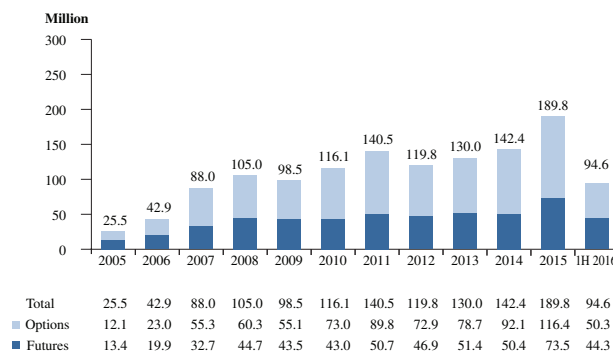
Hong Kong securities market is one of the pioneers among Asian markets with futures and options business. Since 1986 when the first futures contract was introduced, Hong Kong securities market has been committed to consistently innovating in the product categories of futures and options, promoting the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



## INDUSTRY OVERVIEW

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

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



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

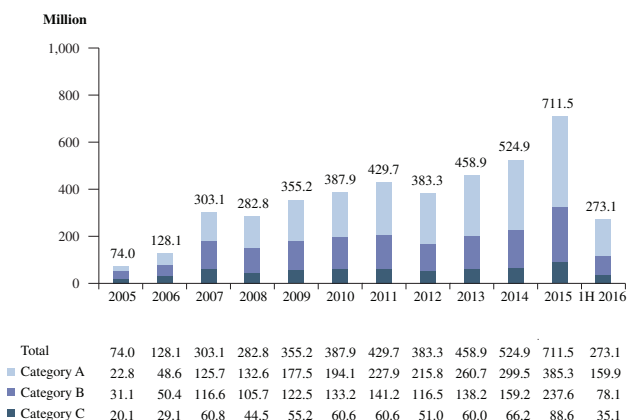
Source: SFC; Frost & Sullivan

### Securities brokerage industry

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

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

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



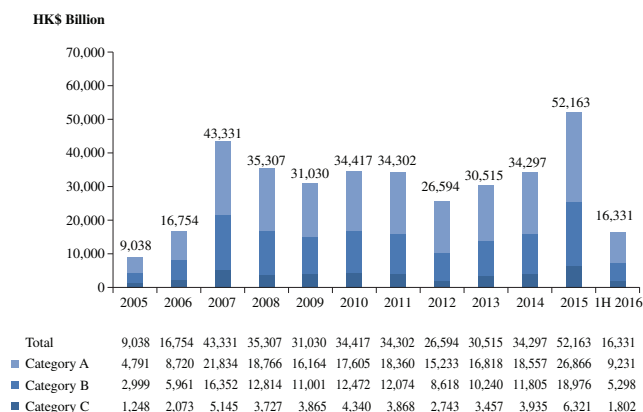
CAGR	Category A	Category B	Category C	Total
2005-2015	32.7%	22.6%	16.0%	25.4%

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

Source: SFC; Frost & Sullivan

## INDUSTRY OVERVIEW

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



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

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

Source: SFC; Frost & Sullivan

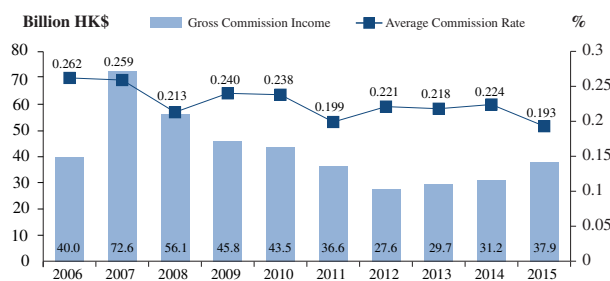
### Proportion of Exchange Participants in terms of transaction value, 2012-2015

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

Source: SFC; Frost & Sullivan

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

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



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

Source: Frost & Sullivan

## INDUSTRY OVERVIEW

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

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

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

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

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

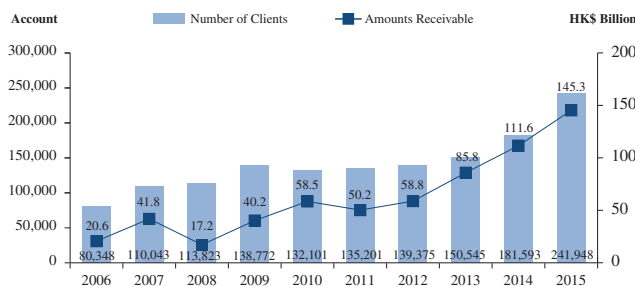
Source: SFC; Annual Reports of Hong Kong listed companies; Frost & Sullivan

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

#### Securities Margin Financing:

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

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



Source: SFC; Frost & Sullivan

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

## INDUSTRY OVERVIEW

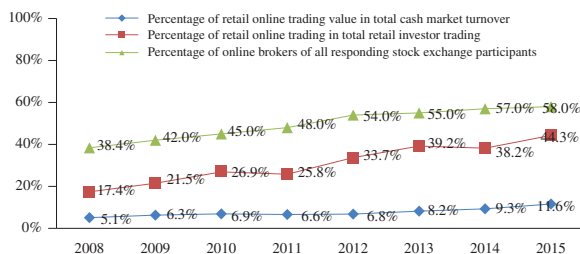
billion at a CAGR of 21.6%. The rapid growth was mainly attributable to the increasing financing demand in Hong Kong. Also, the continuous progress of developing margin financing service/products has driven the application of margin financing among money borrowers.

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

#### *Emerging online brokerage business:*

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

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



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

*Source:* Cash Market Transaction Survey of HKEX

#### *Diversified service mode:*

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

## INVESTMENT BANKING

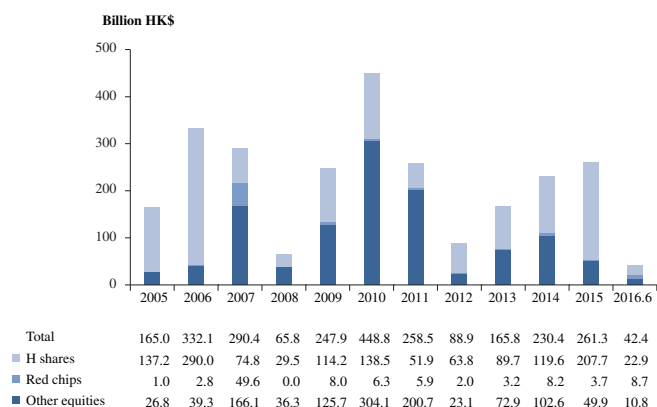
Investment banking generally refers to the business of advising on corporate finance. Under the SFO, institutions with such practices are requested to be licensed with Type 6 License (Advising on corporate finance) or registered under the SFO for conducting corporate finance advisory business as a licensed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

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

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

## INDUSTRY OVERVIEW

### Funds raised through IPOs, 2005-2016.6



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

Source: SFC; Frost & Sullivan

### Competitive landscape in Hong Kong

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

### ASSET MANAGEMENT

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

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



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

Source: SFC; Frost & Sullivan

---

## INDUSTRY OVERVIEW

---

### MARKET DRIVERS

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

#### Internationalised capital market

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

#### Diversified funding sources

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

#### Mature trading and clearing system

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

#### Evolving and comprehensive regulatory regime

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

#### Diversified financial products

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



---

## INDUSTRY OVERVIEW

---

### Investment globalisation of PRC investors

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

### Continuous development of the PRC macro-economy

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

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

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

### Regulatory requirements

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

### Fierce competition

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

### Requirement to comply with the FRR

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

---

## REGULATORY OVERVIEW

---

### REGULATORY ENVIRONMENT IN HONG KONG

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

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

##### Securities and Futures Commission

###### *Regulation of the securities and futures market*

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

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

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

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

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



---

## REGULATORY OVERVIEW

---

### Securities and Futures Ordinance

#### *Licensing regime*

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

Under the SFO, a person who:

- (a) carries on a business in a regulated activity; or
- (b) holds itself out as carrying on a business in a regulated activity,

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

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

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

- (a) performs any regulated function in relation to a regulated activity carried on as a business; or
- (b) holds himself or herself out as performing such regulated function,

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

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

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

---

## REGULATORY OVERVIEW

---

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

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

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

### **Responsible Officer**

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

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

### ***Qualification and experience required for being a responsible officer***

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

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

---

## REGULATORY OVERVIEW

---

### **Licensed Representative**

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

### ***Qualification and experience required for being a licensed representative***

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

### **Fit and Proper**

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

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

- (a) the financial status or solvency of the applicant;
- (b) the educational or other qualifications or experience of the applicant having regard to the nature of the functions to be performed;
- (c) the ability of the applicant to carry out the regulated activity concerned competently, honestly and fairly; and
- (d) the reputation, character, reliability and financial integrity of the applicant and, where the applicant is a corporation, any officer of the applicant.

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

## **REGULATORY OVERVIEW**

---

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

- (a) decisions made by such relevant authorities as stated in section 129(2)(a) of the SFO or any other authority or regulatory organisation, whether in Hong Kong or elsewhere, in respect of that person;
- (b) in the case of a corporation, any information in the possession of the SFC or the Hong Kong Monetary Authority (the “**HKMA**”) relating to:
  - (i) any other corporation within the group of companies; or
  - (ii) any substantial shareholder or officer of the corporation or of any of its group companies;
- (c) in the case of a corporation licensed under section 116 or section 117 of the SFO or registered under section 119 of the SFO or an application for such licence or registration:
  - (i) any information in the possession of the SFC or the HKMA relating to any other person who will be acting for or on its behalf in relation to the regulated activity; and
  - (ii) whether the person has established effective internal control procedures and risk management systems to ensure its compliance with all applicable regulatory requirements under any of the relevant provisions;
- (d) in the case of a corporation licensed under section 116 or section 117 of the SFO or an application for the licence, any information in the possession of the SFC or the HKMA relating to any person who is or to be employed by, or associated with, the person for the purposes of the regulated activity; and
- (e) the state of affairs of any other business which the person carries on or proposes to carry on.

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

## REGULATORY OVERVIEW

### Key On-Going Obligations of Licensed Corporations

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

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

#### *Maintenance of minimum paid-up share capital and liquid capital*

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

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

#### *Minimum paid-up share capital*

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

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

---

## REGULATORY OVERVIEW

---

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

### *Minimum liquid capital*

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

- (a) The amount of:
  - (i) HK\$500,000 in the case of a corporation licensed for Type 1 (dealing in securities) or Type 2 (dealing in futures contracts) regulated activity that is an approved introducing agent or a futures non-clearing dealer; or
  - (ii) HK\$100,000 in the case of a corporation licensed for Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) or Type 9 (asset management) regulated activity that is subject to the licensing condition that it shall not hold client assets; or

---

## REGULATORY OVERVIEW

---

- (iii) HK\$3,000,000 in the case of a corporation licensed for other Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) or Type 9 (asset management) regulated activity not within the scope of paragraphs (i) and (ii) above.
- (b) 5% of the aggregate of:
  - (i) the licensed corporation's on-balance sheet liabilities including provisions made for liabilities already incurred or for contingent liabilities but excluding certain amounts stipulated in the definition of "adjusted liabilities" under the SFO;
  - (ii) the aggregate of the initial margin requirements in respect of outstanding futures contracts and outstanding options contracts held by it on behalf of its clients; and
  - (iii) the aggregate of the amounts of margin required to be deposited in respect of outstanding futures contracts and outstanding options contracts held by it on behalf of its clients, to the extent that such contracts are not subject to payment of initial margin requirements.

### *Maintenance of segregated accounts and custody and handling of client securities*

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

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

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

---

## REGULATORY OVERVIEW

---

### *Issue of contract notes, statements of account and receipts*

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

### *Record keeping requirements*

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

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

### *Submission of audited accounts*

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



---

## REGULATORY OVERVIEW

---

### *Submission of financial resources returns*

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

### *Payment of annual fees*

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

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

### *Maintenance of insurance*

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

### *Notification to the SFC of certain changes and events*

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

---

## REGULATORY OVERVIEW

---

### *Continuous professional training*

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

### *Obligation for substantial shareholder*

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

### *Other Approvals from the SFC*

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

### *Employee dealings*

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

- (i) the written policy should specify the conditions on which employees may deal for their own accounts;
- (ii) employees should be required to identify all related accounts (including accounts of their minor children and accounts in which the employees hold beneficial interests) and report them to senior management;
- (iii) employees should generally be required to deal through the licensed or registered person or its affiliates;

---

## REGULATORY OVERVIEW

---

- (iv) if the licensed or registered person provides services in securities or futures contracts listed or traded on one of the Hong Kong exchanges or in derivatives, including over-the-counter derivatives written over such securities or future contracts, and its employees are permitted to deal through another dealer in those securities or future contracts, the licensed or registered person and employee should arrange for duplicate trade confirmations and statements of account to be provided to senior management of the licensed or registered person;
- (v) any transactions for employees' accounts and related accounts should be separately recorded and clearly identified in the records of the licensed or registered person; and
- (vi) transactions of employees' accounts and related accounts should be reported to and actively monitored by senior management of the licensed or registered person who should not have any beneficial or other interest in the transactions and who should maintain procedures to detect irregularities and ensure that the handling by the licensed or registered person of these transactions or orders is not prejudicial to the interests of the licensed or registered person's other customers.

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

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

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

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

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

---

## REGULATORY OVERVIEW

---

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

### **Hong Kong Exchanges and Clearing Limited**

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

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

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

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

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

- (a) the control and regulation of money lenders and their money lending transactions;
- (b) the appointment of the Registrar of Money Lenders and the licensing of persons carrying on business as money lenders; and
- (c) the protection and relief against excessive interest rates and extortionate stipulations in respect of loans.

---

## REGULATORY OVERVIEW

---

### Governing authorities

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

- the Licensing Court – comprising a magistrate sitting alone and responsible for determination of applications for and granting or renewing of Money Lenders Licences;
- the Registrar of Money Lenders – responsible for processing new applications and renewal applications for Money Lenders Licences, endorsements on Money Lenders Licences and maintaining a register of money lenders for inspection by members of the public. The Registrar of Companies presently performs the above functions of the Registrar of Money Lenders; and
- the Commissioner of Police – responsible for carrying out investigations in respect of applications for Money Lenders Licences, and enforcement of the Money Lenders Ordinance.

### *Our licensing history and compliance with the Money Lenders Ordinance*

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

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

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

---

## REGULATORY OVERVIEW

---

### Money Lenders Licence

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

### Application for or renewal of Money Lenders Licence

#### *Information to be submitted to the Registrar of Money Lenders*

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

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

- Corporate information – (i) the name and (in the case of a new application for a licence) any former names (in English and Chinese) of the applicant; (ii) its date and place of incorporation (in the case of a new application for a licence); (iii) the date of the certificate of registration issued in respect of the applicant under Part 16 of the Companies Ordinance if the applicant is a non-Hong Kong company (in the case of a new application for a licence); (iv) the address of its registered office; and (v) the address and telephone number of each of the places at which the applicant's money lending business is carried on.
- Banking information in relation to each bank at which an account is kept or proposed to be kept in connection with a money lending business – (i) the name of each of the banks; (ii) the address of each of the banks; (iii) the number of accounts maintained at each of the banks; and (iv) the date on which each account was opened.
- Personal particulars of the current (and, if applicable, previous) directors of the applicant – (i) English and (if applicable) Chinese names and commercial codes; (ii) residential addresses; (iii) periods of service as directors of the applicant (in the case that the previous directors who have held office as a director during the 12 months immediately preceding the date of application); (iv) Hong Kong identity card numbers; and (v) aliases.

---

## REGULATORY OVERVIEW

---

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

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

### *Investigation and lodgement of application*

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

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

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

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

### *Determination of application for or renewal of licence by Licensing Court*

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



---

## REGULATORY OVERVIEW

---

### *Qualification criteria for the grant or renewal of Money Lenders Licences*

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

- (i) the application is subject to an objection by the Registrar of Money Lenders;
- (ii) the application is subject to an objection by the Commissioner of Police; or
- (iii) the application is subject to an objection by any other person who has served notice of his intention to object, or any other person who is granted leave by the Licensing Court to make such an objection.

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

- (i) the applicant is a fit and proper person to carry on business as a money lender;
- (ii) if the applicant is a company, any person who controls such company or in accordance with whose directions or instructions the directors thereof are accustomed to act, is a fit and proper person to be associated with the business of money lending;
- (iii) any person responsible or proposed to be responsible for the management of the applicant's business or any part thereof, or, if the applicant is a company, any director, secretary or other officer of the company, is a fit and proper person to be associated with the business of money-lending;
- (iv) the applicant's name under which the Money Lenders Licence is applied for is not misleading or otherwise undesirable;
- (v) the premises to be used in the applicant's money lending business are suitable for carrying on the business of money lending;
- (vi) the applicant has complied with the provisions of the Money Lenders Ordinance and any regulations relating to the application; and
- (vii) in all the circumstances the grant of such licence is not contrary to the public interest.

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



---

## REGULATORY OVERVIEW

---

### *Revocation or suspension of Money Lenders Licence by the Licensing Court*

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

- (i) the licensee has ceased to become a fit and proper person to carry on business as a money lender; or
- (ii) the premises specified in the Money Lenders Licence or any of such premises have, or the situation thereof has, ceased to be suitable for the carrying on of the business of money lending; or
- (iii) the licensee has been in serious breach of any condition of the Money Lenders Licence or has ceased to satisfy any other condition relating to the licensee's business as a money lender in respect of which the Licensing Court is required to be satisfied; or
- (iv) the business of the licensee has been carried on at any time or on any occasion since the date on which the licence was granted by recourse to the use of any methods, or in any manner, contrary to the public interest.

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

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

- (i) the officers of such licensee;
- (ii) the control of such licensee by any person;
- (iii) the number of shares, or shares of a prescribed class, of such licensee held by any person whereby the number of those shares exceeds the prescribed proportion of the number of issued shares or of the number of shares of that class (as the case may be); and
- (iv) the persons responsible for the management of the licensee's business as a money lender at any premises where the business is carried on.

---

## REGULATORY OVERVIEW

---

### *Regulations of money lending transactions*

#### *(I) Money Lenders Ordinance*

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

##### *(a) Requirement of a written agreement*

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

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

- (i) the name and address of the money lender;
- (ii) the name and address of the borrower;
- (iii) the name and address of the surety, if any;
- (iv) the amount of the principal of the loan in words and figures;
- (v) the date of the making of the agreement;
- (vi) the date of the making of the loan;
- (vii) the terms of repayment of the loan;
- (viii) the form of security for the loan, if any;
- (ix) the rate of interest charged on the loan; and
- (x) a declaration as to the place of negotiation and completion of the agreement for the loan.

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

---

## REGULATORY OVERVIEW

---

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

*(b) Duty to give information to borrower*

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

- (i) the date on which the loan was made, the amount of principal and the interest rate charged;
- (ii) the amount of any payments already received by the money lender and the date(s) of such payments; and
- (iii) the amount not yet due which remains outstanding, and the date on which it will become due.

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

*(c) Borrowers entitled to early repayment*

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

*(d) Terms rendering an agreement illegal*

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

- (i) the payment of compound interest;
- (ii) prohibition of repayment of the loan by instalments; or
- (iii) the rate or amount of interest being increased by reason of any default in the payment of sums due under the agreement.

---

## REGULATORY OVERVIEW

---

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

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

*(e) Maximum interest rate chargeable by a money lender*

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

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

- (i) on summary conviction to a fine of HK\$500,000 and to imprisonment for two years; or
- (ii) on conviction on indictment to a fine of HK\$5 million and to imprisonment for ten years.

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

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

---

## REGULATORY OVERVIEW

---

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

*(g) Requirements with respect to money-lending advertisements*

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

*(h) Incidental charge for granting of loans not allowed*

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

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

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

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

---

## REGULATORY OVERVIEW

---

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

*(j) Conviction of offence under the Money Lenders Ordinance*

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

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

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

*(k) Compliance*

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

*(II) Money Lenders Regulations*

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

---

## REGULATORY OVERVIEW

---

### *(III) Code of Money Lending Practice*

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

- (a) the terms and conditions should, where applicable, highlight the relevant interest rates or the basis on which this will be determined, and the customers’ liabilities and obligations in the use of a service. In drawing up terms and conditions for the services, members should have due regard to applicable laws in Hong Kong;
- (b) licensed money lenders should at all times comply with the PDPO (as defined below) in the collection, use and holding of customer information. They should also comply with any relevant codes of practice issued or approved by the Privacy Commissioner for Personal Data giving practical guidance on compliance with the PDPO;
- (c) approval of loans should be subject to members’ credit assessment, which should take into account the applicant’s ability to repay. Licensed money lenders should endeavour to ensure that a prospective borrower understands the principal terms and conditions of any borrowing arrangement, such as the interest rates and terms of repayment; and
- (d) licensed money lenders should have proper systems and procedures in place for the selection of debt collection service providers and the monitoring of their performance. They should also establish procedures to handle complaints received from customers and should bring apparently illegal behavior by debt collection service providers to the attention of the police.

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

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

---

## REGULATORY OVERVIEW

---

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

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

#### **DTROP, OSCO and UNATMO**

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

##### (a) **DTROP**

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

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

##### (b) **OSCO**

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

##### (c) **UNATMO**

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

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



---

## **REGULATORY OVERVIEW**

---

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

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

### **UNITED NATIONS SANCTIONS ORDINANCE**

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

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

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

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

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

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

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

### **PERSONAL DATA (PRIVACY) ORDINANCE**

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

---

## REGULATORY OVERVIEW

---

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

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

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

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

#### ***Background***

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

---

## REGULATORY OVERVIEW

---

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

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

### *Our Group's compliance with FATCA*

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

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

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

---

## HISTORY, REORGANISATION AND GROUP STRUCTURE

---

### OVERVIEW

We were incorporated in the Cayman Islands with limited liability on 21 July 2015 in anticipation of the [REDACTED]. We have seven subsidiaries in Hong Kong, namely, CISI Brokerage, CISI Futures, CISI Capital, CISI Asset Management, CISI Finance, CISI Investment and CISI Wealth Management. For details of our subsidiaries and corporate structure, please refer to the paragraph headed “Corporate history of our principal subsidiaries”.

Our Group’s history traces back to July 2011 when Industrial Securities founded Industrial Securities (Hong Kong). Industrial Securities funded the initial issue capital of HK\$100,000,000 of Industrial Securities (Hong Kong) pursuant to the approval granted by CSRC.

Our Group offers a wide range of financial services including (i) brokerage, (ii) loans and financing, (iii) investment banking, (iv) asset management, and (v) proprietary trading. For details of our services and operations, please refer to the section headed “Business” of this document.

The following sets forth the key milestones of our Group since our establishment in July 2011:

<b>Year</b>	<b>Key milestones</b>
2011	Industrial Securities (Hong Kong) was established with initial issued share capital of HK\$100,000,000
2012	CISI Brokerage was granted the licenses for Type 1 and Type 4 regulated activities by the SFC  CISI Futures was granted the license for Type 2 regulated activity by the SFC  CISI Asset Management was granted the licenses for Type 4 and Type 9 regulated activities by the SFC
2013	CISI Capital was granted the licenses for Type 1 and Type 6 regulated activities by the SFC and qualified to act as sponsor under the SFO  CISI Asset Management was granted the license for Type 5 regulated activity by the SFC
2014	CISI Finance was granted the Money Lenders License by the Licensing Court  The issued and paid-up share capital of Industrial Securities (Hong Kong) was increased to HK\$500,000,000

## HISTORY, REORGANISATION AND GROUP STRUCTURE

Year	Key milestones
2015	The total amount of client assets held by us reached HK\$30,000,000,000
2016	The total issued and paid-up share capital of our Company reached HK\$288,584,157.9 for which the total subscription price paid amounted to HK\$2,911,241,815.75 upon the completion of the Reorganisation, the Employee Share Participation Scheme, the [REDACTED] and increase of shareholding in our Company by CISI Holdings

### CORPORATE HISTORY OF OUR PRINCIPAL SUBSIDIARIES

As at the Latest Practicable Date, our Company has 100% direct interests in each of its subsidiaries, particulars of which are set out below:

Name of subsidiary	Date of establishment	Issued and paid-up capital	Attributable interest to our Company	Principal activities	Principal licenses
CISI Brokerage	20 July 2011	HK\$1,800,000,000	100%	Brokerage of securities	Type 1 and Type 4 regulated activities
CISI Futures	18 January 2012	HK\$50,000,000	100%	Brokerage of futures and options contracts	Type 2 regulated activity
CISI Capital	16 August 2012	HK\$20,000,000	100%	Investment banking	Type 1 and Type 6 regulated activities, licensed sponsor
CISI Asset Management	31 October 2011	HK\$20,000,000	100%	Asset management	Type 4, Type 5 and Type 9 regulated activities
CISI Finance	28 October 2013	HK\$210,000	100%	Money lending	Money Lenders License
CISI Investment	29 May 2014	HK\$20,000,000	100%	Investment	N/A
CISI Wealth Management	21 April 2015	HK\$1,000,000	100%	Wealth management	N/A <sup>note</sup>

*Note:* CISI Wealth Management has been registered as a principal intermediary with Mandatory Provident Fund Schemes Authority and is a member of Professional Insurance Brokers Association.

---

## HISTORY, REORGANISATION AND GROUP STRUCTURE

---

The following sets forth the respective corporate history of our principal subsidiaries since their respective dates of incorporation.

### *CISI Brokerage*

CISI Brokerage (formerly known as Industrial Securities (Hong Kong) Brokerage Limited) was established in Hong Kong on 20 July 2011 with an initial issued share capital of HK\$50,000,000, which was held as to 100% by Industrial Securities (Hong Kong). The initial issued share capital of CISI Brokerage was paid up in cash. Industrial Securities (Hong Kong) increased the issued share capital of CISI Brokerage to HK\$70,000,000, HK\$150,000,000, HK\$300,000,000, HK\$1,300,000,000 and HK\$1,800,000,000 in the years of 2012, 2013, 2014, 2015 and 2016, respectively. CISI Brokerage commenced its business in 2012 upon obtaining the licenses for Type 1 and Type 4 regulated activities from the SFC.

On 18 December 2015, Industrial Securities (Hong Kong) agreed to transfer its entire shareholding in CISI Brokerage (together with the related business) to our Company and CISI Brokerage has been accounted as a subsidiary of the Company since then. As at the Latest Practicable Date, the transaction has been completed.

### *CISI Futures*

CISI Futures (formerly known as Industrial Securities (Hong Kong) Futures Limited) was established in Hong Kong on 18 January 2012 with an initial issued share capital of HK\$20,000,000, which was held as to 100% by Industrial Securities (Hong Kong). The initial issued share capital of CISI Futures was paid up in cash. Industrial Securities (Hong Kong) increased the issued share capital of CISI Futures to HK\$30,000,000 and HK\$50,000,000 in the years of 2014 and 2015, respectively. CISI Futures commenced its business in 2012 upon obtaining the license for Type 2 regulated activity from the SFC.

On 18 December 2015, Industrial Securities (Hong Kong) agreed to transfer its entire shareholding in CISI Futures (together with the related business) to our Company and CISI Futures has been accounted as a subsidiary of the Company since then. As at the Latest Practicable Date, the transaction has been completed.

### *CISI Capital*

CISI Capital (formerly known as Industrial Securities (Hong Kong) Capital Limited) was established in Hong Kong on 16 August 2012 with an initial issued share capital of HK\$10,000, which was held as to 100% by Industrial Securities (Hong Kong). The initial issued share capital of CISI Capital was paid up in cash. Industrial Securities (Hong Kong) increased the issued share capital of CISI Capital to HK\$10,000,000 and HK\$20,000,000 in the years of 2012 and 2013, respectively. CISI Capital commenced its business in 2013 upon obtaining the licenses for Type 1 and Type 6 regulated activities and sponsor license from the SFC.

On 18 December 2015, Industrial Securities (Hong Kong) agreed to transfer its entire shareholding in CISI Capital (together with the related business) to our Company and CISI Capital has been accounted as a subsidiary of the Company since then. As at the Latest Practicable Date, the transaction has been completed.



---

## HISTORY, REORGANISATION AND GROUP STRUCTURE

---

### *CISI Asset Management*

CISI Asset Management (formerly known as Industrial Securities (Hong Kong) Asset Management Limited) was established in Hong Kong on 31 October 2011 with an initial issued share capital of HK\$10,000,000, which was held as to 100% by Industrial Securities (Hong Kong). The initial issued share capital of CISI Asset Management was paid up in cash. Industrial Securities (Hong Kong) increased the issued share capital of CISI Asset Management to HK\$20,000,000 in 2012. CISI Asset Management commenced its business in 2012 having obtained the licenses for Type 4 and Type 9 regulated activities from the SFC.

On 18 December 2015, Industrial Securities (Hong Kong) agreed to transfer its entire shareholding in CISI Asset Management (together with the related business) to our Company. CISI Asset Management has been accounted as a subsidiary of the Company. As at the Latest Practicable Date, the transaction has been completed.

### *CISI Finance*

CISI Finance (formerly known as Industrial Securities (Hong Kong) Finance Limited) was established in Hong Kong on 28 October 2013 with an initial issued share capital of HK\$10,000, which was held as to 100% by Industrial Securities (Hong Kong). The initial issued share capital of CISI Finance was paid up in cash. Industrial Securities (Hong Kong) increased the issued share capital of CISI Finance to HK\$210,000 in 2014.

On 18 December 2015, Industrial Securities (Hong Kong) agreed to transfer its entire shareholding in CISI Finance (together with the related business) to our Company. CISI Finance has been accounted as a subsidiary of the Company. As at the Latest Practicable Date, the transaction has been completed.

### *CISI Investment*

CISI Investment (formerly known as Industrial Securities (Hong Kong) Investment Limited) was established in Hong Kong on 29 May 2014 with an initial issued share capital of HK\$1,000,000, which was held as to 100% by Industrial Securities (Hong Kong). The initial issued share capital of CISI Investment was paid up in cash. Our Company increased the issue share capital of CISI Investment to HK\$20,000,000 in 2016.

On 18 December 2015, Industrial Securities (Hong Kong) agreed to transfer its entire shareholding in CISI Investment (together with the related business) to our Company. CISI Investment has been accounted as a subsidiary of the Company. As at the Latest Practicable Date, the transaction has been completed.

### *CISI Wealth Management*

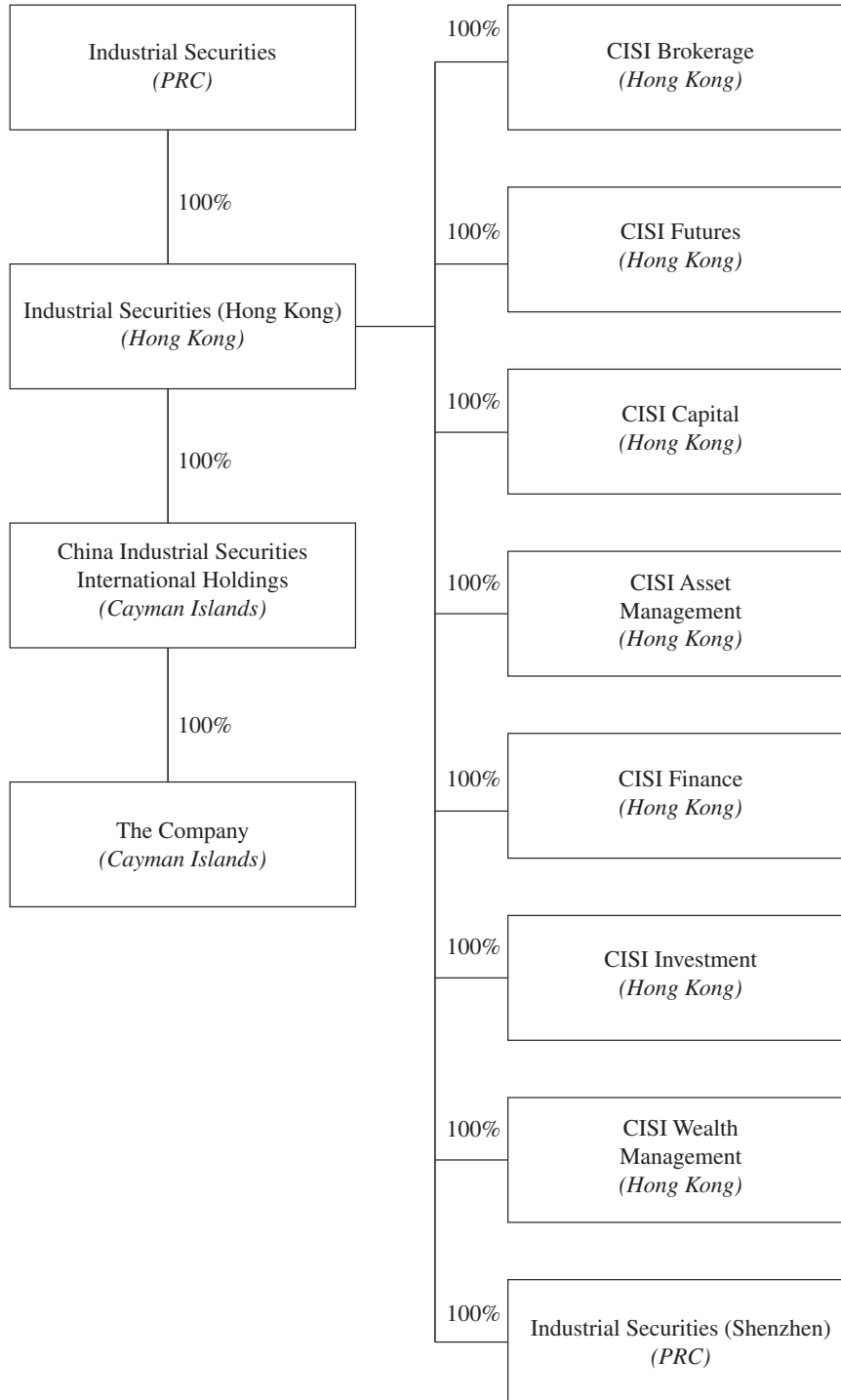
CISI Wealth Management (formerly known as Industrial Securities (Hong Kong) Wealth Management Limited) was established in Hong Kong on 21 April 2015 with an initial issued share capital of HK\$1,000,000, which was held as to 100% by Industrial Securities (Hong Kong). The initial issued share capital of CISI Wealth Management was paid up in cash.

On 18 December 2015, Industrial Securities (Hong Kong) agreed to transfer its entire shareholding in CISI Wealth Management (together with the related business) to our Company. CISI Wealth Management has been accounted as a subsidiary of the Company since then. As at the Latest Practicable Date, the transaction has been completed.

## HISTORY, REORGANISATION AND GROUP STRUCTURE

### CORPORATE AND SHAREHOLDING STRUCTURE OF OUR GROUP IMMEDIATELY BEFORE REORGANISATION

The following chart sets out our corporate and shareholding structure immediately before the Reorganisation:





## HISTORY, REORGANISATION AND GROUP STRUCTURE

### EXCLUDED OPERATIONS

Immediately before the Reorganisation, each of the subsidiaries of the Company and Industrial Securities (Shenzhen) were directly wholly-owned by Industrial Securities (Hong Kong), our Controlling Shareholder, which in turn is wholly owned by Industrial Securities. Industrial Securities is a company listed on the Shanghai Stock Exchange.

Industrial Securities (Shenzhen) is mainly engaged in consultancy services provision. The following table sets out the principal financial information of Industrial Securities (Shenzhen):

	Year ended 31 December		For the three months ended
	2014	2015	31 March
	(HK\$)	(HK\$)	2016
			(HK\$)
Revenue	–	–	–
Other income	1,255	5,105	220
Net loss	2,230,760	7,630,462	1,000,340
Operating cash outflow before changes in working capital and taxes	2,113,201	7,398,223	940,940
Taxation	–	–	–

According to the Circular of the State Council Concerning Further Strengthening the Administration of Share Issuance and Listing Overseas (《國務院關於進一步加強在境外發行股票和上市管理的通知》) issued by the State Council of the PRC, where a private Chinese-controlled overseas company seeks for a [REDACTED] of its assets overseas, the domestic assets it holds for a period less than three years must not be listed overseas without the approval from CSRC.

As at the Latest Practicable Date, since Industrial Securities (Shenzhen) has been established for less than three years and the application to the CSRC will take time, the Company decided not to include Industrial Securities (Shenzhen) into the [REDACTED] Group so as to reduce uncertainties in the [REDACTED] timetable of the Group. As at the Latest Practicable Date, the Company and Industrial Securities do not have the intention to include Industrial Securities (Shenzhen) into the Group. If the Group were to continue to require the services provided by Industrial Securities (Shenzhen) based on business need after three years of Industrial Securities (Shenzhen)'s establishment, the Company will consider to acquire Industrial Securities (Shenzhen) from Industrial Securities upon negotiated terms. The Company will comply with relevant requirements under the GEM Listing Rules for such acquisition.

Industrial Securities (Shenzhen) served as our consultancy service provider but its contribution to our Group's results was considered insignificant. During the Track Record Period, Industrial Securities (Shenzhen) provided us consultancy services. For the purpose of accountants' report, the costs incurred by Industrial Securities (Shenzhen) for such consultancy

---

## HISTORY, REORGANISATION AND GROUP STRUCTURE

---

services were recognised as expenses of the Group. The Company has entered into a service agreement on 27 September 2016 with the Industrial Securities (Shenzhen) for their provision of consultancy services to our Group. There has been no change in the role of the scope of services provided by Industrial Securities (Shenzhen) since the Reorganisation of our Group in late 2015. Therefore, the exclusion of the Industrial Securities (Shenzhen) from our Group would not materially affect our operation. For details of the service agreement between our Group and the Industrial Securities (Shenzhen), please refer to the section headed "Connected Transactions" of this document.

### REORGANISATION

Pursuant to a subscription agreement entered into among Industrial Securities (Hong Kong), China Industrial Securities International Holdings and the Company for the purpose of the Reorganisation in preparation for the [REDACTED], the Reorganisation took effect on 18 December 2015, as a result of which CISI Brokerage, CISI Futures, CISI Capital, CISI Asset Management, CISI Finance, CISI Investment and CISI Wealth Management were accounted as our subsidiaries since such date. Various post completion steps of the Reorganisation have been taken to consummate the business transfers and to comply with the regulatory requirements under the applicable laws.

Set out below are the key steps of the Reorganisation:

On 18 December 2015, Industrial Securities (Hong Kong), China Industrial Securities International Holdings and the Company entered into a subscription agreement, pursuant to which the Company issued 489,990,000 Shares to China Industrial Securities International Holdings, in consideration of the transfer of CISI Brokerage, CISI Futures, CISI Capital, CISI Asset Management, CISI Finance, CISI Investment and CISI Wealth Management and their related businesses, and all assets, liabilities and contracts of Industrial Securities (Hong Kong) to the Company.

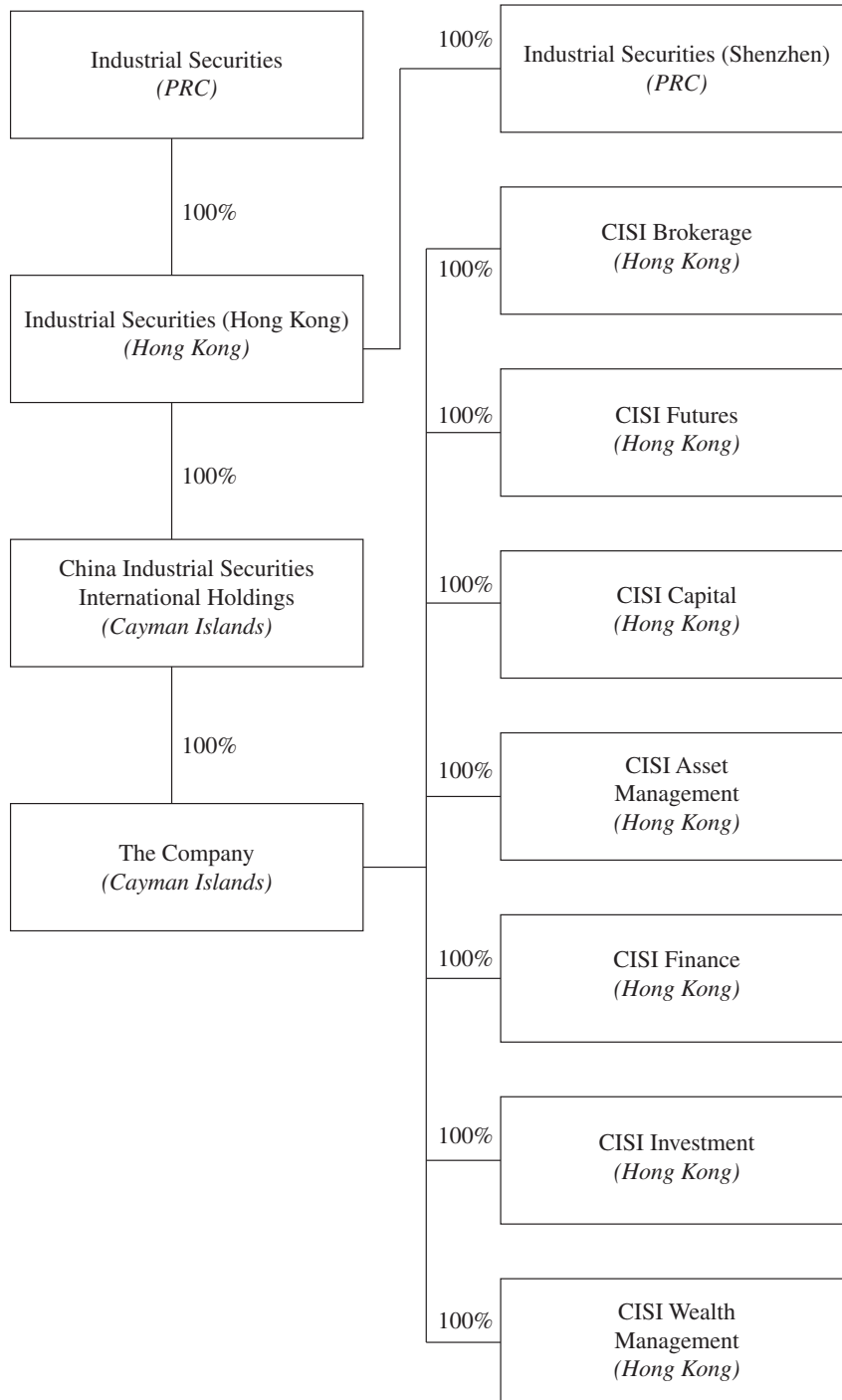
With respect to the external approvals obtained by Industrial Securities Group, the SFC granted the approval for China Industrial Securities International Holdings and the Company becoming the substantial shareholders of CISI Brokerage, CISI Futures, CISI Capital and CISI Asset Management on 25 November 2015. The Group notified the SFC of the change in substantial shareholder of CISI Brokerage, CISI Futures, CISI Capital and CISI Asset Management after the relevant equity transfers were completed on 29 January 2016. The CSRC issued a no objection letter in relation to our proposed [REDACTED] on 28 April 2016.

With respect to the internal approvals obtained by Industrial Securities, the board of directors of Industrial Securities approved the proposed [REDACTED] of our Group on 2 November 2015. The shareholders of Industrial Securities approved the proposed [REDACTED] of our Group on 30 December 2015.

Based on the above, the Company is of the view that all necessary approvals in relation to the Reorganisation and the proposed [REDACTED], where applicable, have been obtained.

## HISTORY, REORGANISATION AND GROUP STRUCTURE

The following chart sets out the shareholding structure of our Group immediately following the completion of Reorganisation but before the [REDACTED], the ES Shares issued pursuant to the Employee Share Participation Scheme and the increase of shareholding in our Company by CISI Holdings:



## HISTORY, REORGANISATION AND GROUP STRUCTURE

### INTRODUCTION OF [REDACTED]

The Company and China Industrial Securities International Holdings, a Controlling Shareholder, entered into a share subscription agreement with each [REDACTED] set forth below in relation to subscription of the Shares of the Company (each a “[REDACTED]”, together the “[REDACTED]”) (the “[REDACTED]”).

The following table sets forth the details of the [REDACTED]:

Name of [REDACTED]	Date of investment agreement	Amount of consideration	Date of receipt of consideration	Cost per Share paid	Discount to the maximum [REDACTED]	Shareholding percentage in our Company immediately following completion of the [REDACTED] <sup>Note</sup>
Hao Kang Financial	21 April 2016	HK\$199,999,999.01	22 April 2016	[REDACTED]	[REDACTED]	[REDACTED]
Dragon Power	21 April 2016	HK\$159,999,999.41	21 April 2016	[REDACTED]	[REDACTED]	[REDACTED]
Money Space	21 April 2016	HK\$99,999,999.00	22 April 2016	[REDACTED]	[REDACTED]	[REDACTED]
Fusion International	21 April 2016	HK\$79,999,999.20	22 April 2016	[REDACTED]	[REDACTED]	[REDACTED]
Sushine	21 April 2016	HK\$49,999,999.50	20 April 2016	[REDACTED]	[REDACTED]	[REDACTED]
On Ride	21 April 2016	HK\$29,999,999.70	19 April 2016	[REDACTED]	[REDACTED]	[REDACTED]
Supreme Faith	19 April 2016	HK\$12,999,999.87	19 April 2016	[REDACTED]	[REDACTED]	[REDACTED]
Teda Holdings	21 April 2016	HK\$6,999,999.93	18 April 2016	[REDACTED]	[REDACTED]	[REDACTED]

*Note:* The percentages are rounded to the nearest two decimal places.

With respect to each of the [REDACTED], the relevant consideration amounts payable by each of the [REDACTED] was determined based on arm’s length negotiations with reference to the Group’s net asset value, financial condition and the results of its operations. Each of the subscriptions pursuant to the [REDACTED] were properly, legally and irrevocably settled on or by 22 April 2016. The [REDACTED] were completed on 26 April 2016.

The [REDACTED] by the [REDACTED] expanded the asset base of the Company and extended the business network and potential business opportunities of the Group to support the future development of its businesses through strategic involvement of the [REDACTED]. It was considered that the [REDACTED] would allow the Group to form strategic affiliations with institutional investors and other investors engaged in a diverse range of business activities on one hand, while improving the Company’s gearing ratio through equity financing as opposed to further debt financing, thereby diversifying its funding sources. Subject to prevailing market conditions, we intend to use the [REDACTED] of the [REDACTED] for expansion of brokerage, margin financing, proprietary trading business and our main business lines and working capital. As at the Latest Practicable Date, HK\$[REDACTED] and HK\$[REDACTED] of the proceeds from the [REDACTED] have been used for proprietary trading and brokerage business, respectively.

The Shares to be held by the [REDACTED] upon [REDACTED] will be considered as part of the public float for the purpose of Rule 11.23(7) of the [REDACTED].

---

## HISTORY, REORGANISATION AND GROUP STRUCTURE

---

### Background to each of the [REDACTED]

#### *Hao Kang Financial*

Hao Kang Financial is a company principally engaged in financial investment which is incorporated in Hong Kong, and is indirectly owned as to 70% by Mr. Chen Jiaquan, the director of Shanghai Haosheng Investment Group Company Limited (上海豪盛投資集團有限公司), a PRC company whose business scope covers, among others, industrial investment and asset restructuring, and as to 30% by Ms. Yang Zhiying, his wife.

#### *Dragon Power*

Dragon Power is an investment holding company incorporated in BVI, which is owned (i) as to 50% by Mr. Li San Yim, the chairman of the board of directors of Lonking Holdings Limited, a company listed on the main board of the Stock Exchange (stock code: 3339) which is principally engaged in distribution and finance leasing of distribution machinery and in which Mr. Li owns approximately 55.73% of issued share capital as at the Latest Practicable Date, and (ii) as to 50% by Ms. Ngai Ngan Ying.

#### *Money Space*

Money Space is an investment holding company incorporated in the British Virgin Islands, which is owned as to 65% by Mr. Jiang Jinzhi, the executive director of Greenwoods Asset Management Company Limited (上海景林資產管理有限公司) and a shareholder of Shanghai Greenwoods Investment and Development Company Limited (上海景林投資發展有限公司), and as to 35% by Ms. Tang Hua, his wife.

#### *Fusion International*

Fusion International is a company principally engaged in international trade incorporated in Singapore, which is indirectly wholly-owned by Mr. Qiu Yufeng, the chairman of the board of directors and a shareholder of China Zhong Chong Group Company Limited (中崇集團有限公司), is engaged in international trade, construction investment, and provision of financial services.

#### *Sushine*

Sushine is an investment holding company incorporated in the British Virgin Islands, which is owned as to (i) 40% by Mr. Choi Lim Chi, (ii) as to 20% by Mr. Zhong Shan, the director of Sushang Fund (北京蘇商基金管理有限責任公司), an industrial fund based in the PRC, (iii) as to 20% by Mr. Cui Weizhen, (iv) as to 14% by Ms. Zhao He, an executive director and a shareholder of Han Yuan Investment Company Limited (上海瀚遠投資有限公司), a company principally engaged in, among others, industrial investment and investment management and consultation, (v) as to 4% by Mr. Li Binfeng, a shareholder of Sunflower Asset Management Company Limited (江蘇金葵花資產管理有限公司), a company principally engaged in the provision of financial services based in the PRC, and (vi) as to 2% by Ms. Hui Min, the chief financial officer of GN Capital Investment Inc. (江蘇國能投資有限公司), a company based in the PRC whose business scope includes industrial investment, venture capital and asset management.

---

## HISTORY, REORGANISATION AND GROUP STRUCTURE

---

### *On Ride*

On Ride is a company principally engaged in investments in securities, equity investment funds which is incorporated in the British Virgin Islands, which is wholly-owned by Mr. Li To, who is the director of, among others, Fujian Dongfang Industrial Development Company Limited (福建省東方實業發展有限公司), Shanghai Baode Investment Management Company Limited (上海保得投資管理有限公司), each being trading companies and On Ride Investments Limited (安盛投資有限公司).

### *Supreme Faith*

Supreme Faith is an investment holding company incorporated in Hong Kong, which is wholly-owned by China Eco-Farming Limited, a company incorporated in the Cayman Islands and continued into Bermuda with limited liability which is listed on the GEM board (stock code: 8166) and is principally engaged in one-shop value chain services, property investment, trading in consumable, agricultural products and grocery food products.

### *Teda Holdings*

Teda Holdings is an investment holding company incorporated in the British Virgin Islands, which is wholly-owned by Mr. Li Lei, being its director, and who is the shareholder and executive director of Beijing Langtian Weide Investment Management Company Limited (北京朗天慧德投資管理有限公司), which is principally engaged in investment management and consultation.

### *Relationship between the ultimate beneficial owners of the [REDACTED] and the Company and its connected persons*

To the best of the knowledge, information and belief of our Directors, the ultimate beneficial owners of each of the [REDACTED] are independent of, and not connected with, our Company or any of our subsidiaries and connected persons.

---

## HISTORY, REORGANISATION AND GROUP STRUCTURE

---

### Principal Terms of the [REDACTED]

According to the [REDACTED], the [REDACTED] have, among others, the following rights and obligations under the [REDACTED]:

- Transfer Restrictions** From the date of completion of the [REDACTED] Agreements to the date falling on the first anniversary of the [REDACTED], the [REDACTED] may not directly or indirectly dispose its Shares in our Company.
- Right of first refusal of CISI Holdings** At any time after the first anniversary of the [REDACTED], if any of the [REDACTED] propose to directly or indirectly transfer any of the Shares held by them pursuant to the [REDACTED]:
- (a) Such [REDACTED] must deliver a written notice ("Offer Notice") to China Industrial Securities International Holdings, containing the following details:
    - (i) number of Shares held by them pursuant to the [REDACTED] by them, which are proposed to be transferred,
    - (ii) the price of each such Share,
    - (iii) any material term and conditions upon which such proposed transfer is to be made,
    - (iv) a copy of the written proposal, term sheet, letter of intent or other agreement related to such proposed transfer, if any.
  - (b) China Industrial Securities International Holdings shall then have the right of first refusal ("**Right of First Refusal**"), but not the obligation, to purchase all or part of such Shares offered at the price, and on the terms and conditions, set out in the Offer Notice.
  - (c) Within five Business Days following receipt of the Offer Notice, China Industrial Securities International Holdings may exercise the Right of First Refusal by delivery of written notice to the relevant [REDACTED], which shall specify the number of relevant Shares it proposes to purchase ("**Exercise Notice**").

---

## HISTORY, REORGANISATION AND GROUP STRUCTURE

---

- (d) If Right of First Refusal is not exercised within the prescribed time as mentioned in sub-paragraph (c) above:
  - (i) it shall be deemed to have been waived in respect of the subject transfer. The Offer Notice is irrevocable once delivered, unless the Right of First Refusal is waived or deemed waived, and
  - (ii) the relevant [REDACTED] may, within two weeks of the waiver or deemed waiver of the Right of First Refusal, transfer all or part of the Shares that had been offered in the Offer Notice to any third party on terms and conditions that are substantially the same (or more favourable to such [REDACTED]), failing which the Shares may not be transferred to any third party unless re-offered to China Industrial Securities International Holdings in accordance with sub-paragraphs (a)–(c) above.
- (e) If the Right of First Refusal is exercised, the closing of any transfer of Shares to China Industrial Securities International Holdings pursuant to such exercise of the Right of First Refusal shall take place within five Business Days of the receipt of the Exercise Notice by the relevant [REDACTED].

In respect of the [REDACTED] entered into among Money Space, the Company and China Industrial Securities International Holdings on 21 April 2016, notwithstanding the above paragraph, the Right of First Refusal of China Industrial Securities International Holdings shall not apply to any transfer of Shares from Money Space to its associates or any transfer Shares that are settled through [REDACTED]. If Money Space proposes to transfer any number of Shares which constitute 25% or more of the Shares subscribed by it under its [REDACTED] in a single transaction through [REDACTED], Money Space shall first deliver a written notice specifying the number of Shares to be transferred and the proposed range of price per Share to China Industrial Securities International Holdings at least five (5) business days prior to the proposed transfer.



---

## HISTORY, REORGANISATION AND GROUP STRUCTURE

---

Under the [REDACTED], the [REDACTED] do not have special rights given by the Company.

The Company is of the view, and the Joint Sponsors concur, that the [REDACTED] are in compliance with the Interim Guidance (i.e. Guidance Letter HKEx-GL29-12), Guidance Letter HKEx-GL43-12 and HKEx-GL44-12.

### EMPLOYEE SHARE PARTICIPATION SCHEME

Industrial Securities (Hong Kong) has adopted an Employee Share Participation Scheme for the purpose of establishing a mechanism to align the interests of its employees and our management team with those of our shareholders to promote our Group's strategies and growth. The eligible participants participated into the scheme on a voluntary basis upon prudent consideration of the terms of the scheme. In connection with the Employee Share Participation Scheme, on 26 April 2016, the sole director of the Company resolved to allot and issue a total of 277,029,703 ES Shares in the Company for a total consideration of HK\$279,800,000 (being the total award price (the "**Award Price**") for potential award of the ES Shares (or the proceeds from sale of the ES Shares) to the eligible participants), which has been irrevocably settled on 26 April 2016, representing approximately [REDACTED] of the issued ordinary share capital of the Company as enlarged by the issue of ES Shares, the issue of 633,663,362 Shares pursuant to the [REDACTED] and the issue of 1,485,148,514 Shares to CISI Holdings on 26 April 2016, to ICV. ICV is a wholly owned subsidiary of the Intelligence Creation Trust (as defined below). The ES Shares are subject to a lock-up period of twelve months and may be distributed from the ICV to the Intelligence Creation Trust and thereafter to the eligible participants of the Employee Share Participation Scheme (each an "**Eligible Participant**" and collectively the "**Eligible Participants**") by reference to each Eligible Participant's proportional initial contribution of the Award Price or be sold as recommended by the scheme committee (taking into account of requests from the Eligible Participants) ("**Scheme Committee**"), subject to the discretion of the ES trustee (as defined below).

## HISTORY, REORGANISATION AND GROUP STRUCTURE

There are 101 Eligible Participants under the Employee Share Participation Scheme, including directors, senior management and other senior employees of the Group and Industrial Securities Group. None of the Eligible Participants is interested in [REDACTED] or more of the total issued share capital of the Company as enlarged by the issue of ES Shares and the [REDACTED] and the issue of Shares to CISI Holdings on 26 April 2016. The following Directors and senior management of the Company are interested in the number of ES Shares set opposite to his/her name:

Name	Title	Number of ES Shares interested in	% of ES Shares	approximate % of total issued Shares as at the date of this document
Lan Rong	Non-executive Director	9,000,000	[REDACTED]	[REDACTED]
Zhuang Yuanfang	Non-executive Director	7,900,000	[REDACTED]	[REDACTED]
Huang Jinguang	Executive Director	9,000,000	[REDACTED]	[REDACTED]
Wang Xiang	Executive Director	7,900,000	[REDACTED]	[REDACTED]
Zeng Yanxia	Executive Director	7,000,000	[REDACTED]	[REDACTED]
Wang Han	Senior management	7,000,000	[REDACTED]	[REDACTED]
Kwok Kei Chi	Senior management	5,000,000	[REDACTED]	[REDACTED]
Wong Yung Pang	Senior management	4,000,000	[REDACTED]	[REDACTED]
Li Zhisen	Senior management	5,600,000	[REDACTED]	[REDACTED]
Liu Chung Kuang	Senior management	5,000,000	[REDACTED]	[REDACTED]
Leung Kin Cheong, Laurent	Senior management	2,000,000	[REDACTED]	[REDACTED]
Cho Ka Wai	Senior management	400,000	[REDACTED]	[REDACTED]
Miao Chih Chen	Senior management	3,000,000	[REDACTED]	[REDACTED]

The Employee Share Participation Scheme is not subject to the provisions of Chapter 23 of the GEM Listing Rules as the scheme does not involve the grant by our Company or any of our subsidiaries of options over new shares or other new securities of our Company or any of our subsidiaries to, or for the benefit of, specified participants of such scheme as envisaged under Chapter 23 of the GEM Listing Rules. The transactions effected under the Employee Share Participation Scheme are accounted for as employee share based compensation under the HKFRS 2 “Share-based Payment”. The Company engaged an independent valuer to conduct valuation of such transactions. Based on the valuation report prepared by such independent valuer, as at 26 April 2016 (being the date of the grant of ES Shares), the estimated fair value per ES Share is HK\$1.00. In light of such estimated fair value and on the basis that the subscription price per ES Share is HK\$1.01, it is considered that the transactions effected under the Employee Share Participation Scheme will not have any material financial impact on the Group following the [REDACTED].

---

## **HISTORY, REORGANISATION AND GROUP STRUCTURE**

---

The Intelligence Creation Trust was irrevocably settled by a Deed of Trust dated 27 January 2016 by Intelligence Creation International Limited as the settlor and Equity Trustee Limited as the trustee (“**ES Trustee**”). The ES Trustee holds all the shares in ICV legally and beneficially. Upon any distribution of the ES Shares or proceeds from the sale of the ES Shares from ICV to the ES Trustee, the ES Trustee shall distribute such number of the ES Shares or the sale proceeds thereof to the Eligible Participants under the Intelligence Creation Trust in proportion to their respective initial contribution and in accordance with the Employee Share Participation Scheme.

The Scheme Committee is responsible for the operation, management and administration of the Employee Share Participation Scheme and is appointed by Industrial Securities (Hong Kong). The Scheme Committee comprises Mr. Huang Jinguang, Mr. Wang Xiang and Ms. Zeng Yanxia. The Scheme Committee will consider and thereafter recommend to the ES Trustee (subject to the its discretion) the ES Shares to which Eligible Participants will be allocated (and how many ES Shares will be allocated) from the Intelligence Creation Trust from time to time, provided that such ES Shares or proceeds from the sale of the ES Shares are distributed to the Intelligence Creation Trust from ICV after the lapse of the applicable lock-up period in accordance with the Employee Share Participation Scheme. The ES Trustee has absolute discretion to allocate the ES Shares or the proceeds from sale of the ES Shares to the Eligible Participants.

Our Company did not set any performance target for the allocation of any ES Shares or the proceeds from the sale of the ES Shares by the Intelligence Creation Trust to the Eligible Participants. Each Eligible Participant contributed 20% of the subscription price (the “**Subscription Price**”) for such number of ES Shares is expected to be allocated to such Eligible Participant in order to participate in the Employee Share Participation Scheme. ICV financed 80% of the Subscription Price of such number of the ES Shares to which each Eligible Participant is expected to be allocated by bank loans secured by the share charge over the ES Shares. Each Eligible Participant has provided a personal guarantee in favour of ICV in relation to 80% of the Subscription Price for such number of ES Shares such Eligible Participant is expected to be allocated. The Subscription Price equals to the Award Price multiplied by a fraction, the denominator of which shall be the total number of ES Shares and the nominator of which shall be such number of ES Shares expected to be allocated to the relevant Eligible Participant.

### **Allocation of the ES Shares**

The allocation of ES Shares or the proceeds from sale of the ES Shares will be subject to absolute discretion of the ES Trustee, taking into consideration of the recommendation of the Scheme Committee made taking into account of, including but not limited to the requests of the Eligible Participants and the market condition. There is no distribution or allocation period in which the ES Trustee must distribute or allocate any or all of the ES Shares to any of the Eligible Participants under and subject to the Share Participation Scheme. The ES Trustee has absolute power to allocate any interest to any Eligible Participants at any time (after the lock-up period) within the legally prescribed period under the applicable laws. The Scheme

---

## **HISTORY, REORGANISATION AND GROUP STRUCTURE**

---

Committee would arrange for no less than 2 times per year for the Eligible Participants to request for allocation after the lapse of lock-up period and the repayment of the loan which is secured by the charge of the ES Shares. The allocation conditions of the ES Shares are summarised as follows:

- The Eligible Participants are not entitled to exercise or enjoy the rights to, or to transfer, the ES Shares pending the allocation of the ES Shares.
- The allocation date for all the relevant Eligible Participants will be determined by the ES Trustee at its absolute discretion, subject to the requests and/or recommendations put forward by the Scheme Committee.
- Prior to allocation of the ES Shares to any of the Eligible Participants, the Eligible Participants are not entitled to any voting rights to the ES Shares.

### **Triggering events for surrender of ES Shares**

At the discretion of the ES Trustee but subject to the requests and/or recommendations put forward by the Scheme Committee, the right of an Eligible Participant to any ES Shares shall be deemed to have been surrendered, if the relevant Eligible Participant (a) breaches the applicable laws and incurs criminal liability; (b) is prohibited from entering the market or has his/her license suspended as a result of punitive measures by the relevant regulatory authorities; (c) acts grossly negligently or engages in malpractice and causes significant damage to the Company; or (d) breaches our Company's management policies and his/her employment is terminated as a result.

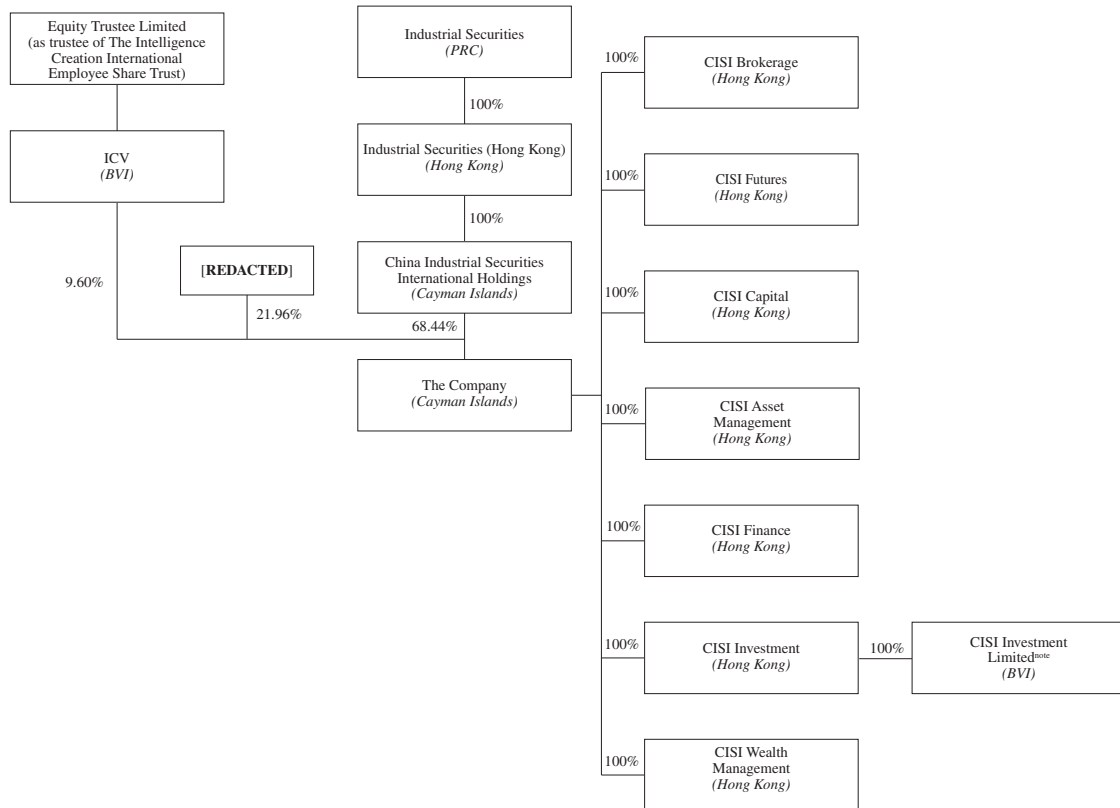
### **INCREASE OF SHAREHOLDING BY CISI HOLDINGS**

CISI Holdings increased its shareholding in our Company by subscription of 1,485,148,514 new shares of our Company with total subscription price of HK\$1,499,999,999.14. The subscription was fully settled and the subscription was completed on 26 April 2016.

## HISTORY, REORGANISATION AND GROUP STRUCTURE

### CORPORATE AND SHAREHOLDING STRUCTURE OF OUR GROUP IMMEDIATELY BEFORE THE [REDACTED] AND THE [REDACTED]

The following chart sets out the Shareholding Structure of our Group after completion of the Reorganisation, the issue of Shares pursuant to the [REDACTED], the ES Shares issued pursuant to the Employee Share Participation Scheme and the increase of shareholding in our Company by CISI Holdings, but immediately before [REDACTED] and the [REDACTED]:



Note: CISI Investment Limited was incorporated on 11 May 2016 and is an investment vehicle of CISI Investment.

---

## **HISTORY, REORGANISATION AND GROUP STRUCTURE**

---

### **CORPORATE AND SHAREHOLDING STRUCTURE OF OUR GROUP AFTER COMPLETION OF THE [REDACTED] AND THE [REDACTED]**

The following chart sets out the shareholding structure of our Group immediately after completion of the [REDACTED] and the [REDACTED] (without taking into account any Shares which may be issued upon exercise of any options that may be granted pursuant to exercise of the [REDACTED]):

[REDACTED]

---

## BUSINESS

---

### OVERVIEW

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

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

- **Brokerage:** we engage in the trading of stocks, futures, options and other securities in Hong Kong, United States, the PRC (comprising B shares and eligible securities traded through the Shanghai-Hong Kong Stock Connect) and other overseas markets on behalf of our clients. We also offer insurance, pensions and other wealth management products developed by third parties to our clients.
- **Loans and financing:** we offer margin financing and money lending services to provide funding flexibility to our clients.
- **Investment banking:** we provide investment banking services, including equity and debt securities underwriting, listing sponsorship and financial advisory services.
- **Asset management:** we offer collective asset management products, discretionary account management and investment advisory services which cater to different investment styles and risk appetites of our clients.
- **Proprietary trading:** we engage in proprietary trading in financial products for our own accounts.

---

## BUSINESS

---

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

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

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



---

## BUSINESS

---

period, respectively. Interest income from our loans and financing business amounted to HK\$10.0 million, HK\$127.0 million and HK\$52.9 million for the years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, respectively, representing 8.3%, 34.9% and 66.3% of our total revenue during the same period, respectively.

### COMPETITIVE STRENGTHS

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

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

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

- our trading turnover of stock increased by over five-fold from HK\$17,927.0 million to HK\$95,634.8 million and the number of contracts executed under our futures and options brokerage business increased by three-fold from 0.49 million to 1.6 million. Our commission and fee income from brokerage business grew over three-fold from HK\$45.3 million in 2014 to HK\$175.2 million in 2015;
- total market value of all securities held by our brokerage clients increased from HK\$6 billion as at 31 December 2014 to HK\$37.3 billion as at 31 December 2015, and client accounts in our brokerage business increased from 8,099 as at 31 December 2014 to 15,424 as at 31 December 2015, of which 2,108 and 4,358 were active accounts, respectively;
- total balance of margin loans increased by almost five-fold from HK\$411.7 million as at 31 December 2014 to HK\$2,421.3 million as at 31 December 2015 and total loan balance of our money lending business increased by over 70% from HK\$157.5 million as at 31 December 2014 to HK\$282.3 million as at 31 December 2015. Interest income from our loans and financing business increased over ten-fold from HK\$10.0 million in 2014 to HK\$127.0 million in 2015;
- our AUM increased from HK\$817.1 million to HK\$1,664.0 million and management fees received from our asset management business increased by over five times from approximately HK\$0.8 million in 2014 to approximately HK\$5.5 million in 2015; and
- the value of securities we had underwritten or placed in all equity fund raising transactions in which we acted as an underwriter or a placing agent increased from HK\$512.2 million in 2014 to HK\$2,471.9 million in 2015.

---

## BUSINESS

---

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

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

### **We benefit from our history as a subsidiary of Industrial Securities and the brand reputation associated with “兴证”**

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

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

## **BUSINESS**

---

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

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

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

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

### **We have a professional and seasoned team with diversified background**

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

## **BUSINESS**

---

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

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

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

## **BUSINESS STRATEGIES**

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

---

## BUSINESS

---

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

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

- *Increasing diversification of client sources:* Capitalising on the increasing integration of the Chinese and Hong Kong financial markets and the trend of internationalisation of Chinese capital in recent years, we have developed a strong clientele of Chinese investors. The trading accounts of our PRC clients (i.e. clients with correspondence address or registered office in the PRC) accounted for 96.2%, 94.9% and 83.9% of our total number of trading accounts under our brokerage segment for the years ended 31 December 2014 and 2015 and for the three months ended 31 March 2016, respectively. Whilst we will continue to accommodate the needs of PRC clients, we believe that both local and overseas clients will continue to present an attractive source of business opportunity. The diversification of client sources, in particular localisation, has become an important direction for our future development. To achieve this, we plan to enhance our sales capability in both local and overseas markets by expanding our sales team to target local and overseas clients, so as to pro-actively create a landscape for balanced developments in the local and overseas markets.
- *Increasing efforts in offering customised services to cater for the varying needs of different clients:* Both Hong Kong and overseas markets are dominated by institutional investors. Given that our business has not yet gone through an extended period of development, over 90% of the trading accounts were individual investors as at 31 March 2016. With the development of our investment banking and asset management business, the proportion of institutional clients and corporate clients has already started to see gradual increase. Going forward, we will step up our efforts in developing our coverage of institutional clients and corporate clients on the basis of the development of affluent individual clients. To implement this strategy, we will consider: (i) offering personalised wealth management portfolios tailored to the needs of affluent and high net worth clients; (ii) establishing a sales team to focus on expanding our institutional and corporate client base; and (iii) encouraging cross-selling between our various business lines.

### **Continuing to enrich our brokerage and wealth management services**

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

---

## BUSINESS

---

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

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

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

- *Accelerate the development of our asset management business*

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

- *Promote the development of our investment banking business*

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



---

## BUSINESS

---

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

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

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

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

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

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

---

## BUSINESS

---

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

### OUR BUSINESS

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

<b>Business Lines</b>	<b>Main Products and Services</b>
Brokerage	<ul style="list-style-type: none"><li>• Securities brokerage</li><li>• Futures and options brokerage</li></ul>
Loans and financing	<ul style="list-style-type: none"><li>• Margin financing</li><li>• Money lending</li></ul>
Investment banking	<ul style="list-style-type: none"><li>• Fund raising services</li><li>• Sponsorship for listings</li><li>• Financial advisory</li></ul>
Asset management	<ul style="list-style-type: none"><li>• Collective investment management schemes</li><li>• Discretionary account management</li><li>• Investment advisory</li></ul>

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



## BUSINESS

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

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

---

## BUSINESS

---

### Brokerage

#### *Overview*

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

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

To leverage on the established client network and accumulated experience while minimising our staff cost, we also engage account executives who are self-employed to execute trades on our client's behalf. Account executives are not our employees, and compared to our in-house client managers who are generally entitled to basic remuneration and performance-based bonus, these account executives are entitled to share with us a pre-determined percentage of brokerage commission received by us from transactions executed for our clients. As at 31 December 2014, 31 December 2015 and 31 March 2016, we had three, 43 and 53 self-employed

---

## **BUSINESS**

---

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

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

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

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

## BUSINESS

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

### *Securities brokerage*

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

- **Stocks:** stocks of listed companies on the Stock Exchange and other stock exchanges worldwide, including the United States, Taiwan, Singapore, Australia, the U.K., and Germany. We are one of China Connect Exchange Participants allowing us to participate in Shanghai-Hong Kong Stock Connect (i.e. trading eligible stocks listed on the Shanghai Stock Exchange);
- **Funds:** authorised funds and ETFs;
- **Bonds:** treasury bonds, corporate bonds and convertible bonds; and
- **Derivatives:** Stock Exchange traded warrants, CBBCs and stock options.

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

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

*Notes:*

1. PRC securities is comprised of B shares and shares traded through the Shanghai-Hong Kong Stock Connect.
2. Others refer to securities traded on other overseas exchanges (including the United States, Taiwan, Singapore, Australia, the U.K. and Germany) through external brokers.

## BUSINESS

### *Futures and options brokerage*

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

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

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

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

## BUSINESS

### *Brokerage commission and fee income*

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

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

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

## BUSINESS

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

### *Brokerage clients*

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

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

## BUSINESS

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

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

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

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

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

### *Trading platforms*

To increase the convenience of our clients and expand our client reach, we provide our clients with multiple trading platforms. Clients could trade remotely via telephone or personal computer and place orders or instructions through such channels. With the increasing proliferation of smartphones and other mobile devices, since 2012 we have rolled out multi-platform electronic trading services, allowing our clients to obtain real-time access to our brokerage services, obtaining latest price quotes, perform transactions in respect of products covering Hong Kong stocks, Shanghai-Hong Kong Stock Connect, B shares, US stocks, Canadian stocks, local futures and global futures, etc., and monitoring transaction status online everywhere, with his or her smartphones or tablets. Online buy/sell orders are automatically



---

## BUSINESS

---

transmitted to our electronic trading system which is connected to the Stock Exchange's trading system and provides automatic matching and execution of buy/sell orders received from clients. Therefore, no involvement of dealers is required for client's trading activities performed online. For each of the two years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, value of transactions with orders placed online (excluding cancelled orders which did not consummate) accounted for approximately 91.5%, 63.4% and 48.3% respectively of our brokerage business's total value of transactions.

### Loans and financing

#### *Overview*

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

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

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

## BUSINESS

### *Margin financing*

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

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

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

*Notes:*

- (1) Average margin ratio is calculated as margin loan balance as at 31 December 2014 and 2015 and 31 March 2016 divided by the market value of the collateral held as at the same date.
- (2) Such ratio is calculated based on the aggregated margin loan receivables divided by the total market value of the collateral held for margin loans as at the end date of the relevant month during the relevant year/period.

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

## BUSINESS

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

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

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

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

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

### ***Money lending***

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

## BUSINESS

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

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

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

*Notes:*

- (1) Period for the period ended 31 December 2014 and 2015 means the year ended 31 December 2014 and 2015, respectively. Period for the period ended 31 March 2016 means the three months ended 31 March 2016. As our Group commenced its money lending business in February 2014, the month ended 31 January 2014 has been excluded in preparing the information shown in this table.
- (2) Average loan-to-value ratio is calculated as total loan balance as at 31 December 2014 and 2015 and 31 March 2016 divided by the total market value of collateral held as at the same date.
- (3) Such ratio is calculated based on the aggregated money lending loan receivables divided by the total market value of the collateral held for loans under money lending sub-segment as at the end date of the relevant month during the relevant year/period.

## BUSINESS

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

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

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

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

	2014 (HK\$ in millions)	2015 (HK\$ in millions)
<b>Loan balance as at 1 January</b>	-	<b>157.5</b>
Amount of new loan granted during the year ended 31 December	165.5	390.0
Amount of loan repaid during the year ended 31 December	(8.0)	(265.2)
<b>Loan balance as at 31 December</b>	<b>157.5</b>	<b>282.3</b>
		<b>2016 (HK\$ in millions)</b>
<b>Loan balance as at 1 January</b>		<b>282.3</b>
Amount of new loan granted during the three months ended 31 March		2.0
Amount of loan repaid during the three months ended 31 March		(19.7)
<b>Loan balance as at 31 March</b>		<b>264.6</b>

## BUSINESS

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

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

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

We entered into loan extension agreements with each of our largest, second largest and third largest money lending clients in the amount of HK\$150 million, HK\$15 million and HK\$10 million, respectively, in May and June 2016, for fulfilling their respective financing needs. Based on our assessment on the recoverability of the loans with reference to the background and credit history of the relevant clients and the aggregate value of all collateral held by our Group, we agreed to extend the term of these loans for two to three months. These clients have duly made interest payments in accordance with the initial term of the loan prior

## BUSINESS

to the extensions and the term of the loan as extended. Subsequently, repayments of HK\$30 million and HK\$30 million were received in July and August 2016 in respect of the loans due from our second largest and our third largest money lending clients as at 31 March 2016. As at 26 August 2016, the total loan receivables due from these two lending clients was nil. The loan receivables due from our largest money lending client in the amount of HK\$150 million with a loan-to-value ratio of 8.1% as at 7 September 2016 had been repaid as at 12 September 2016.

### *Collaterals*

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

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

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



## BUSINESS

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

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

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

*Notes:*

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



## BUSINESS

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

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

	<b>As at 31 December</b>		<b>As at 31 March</b>	
	<b>2014</b>	<b>2015</b>	<b>2016</b>	
	<i>(HK\$ in millions)</i>	<i>(HK\$ in millions)</i>	<i>(HK\$ in millions)</i>	<i>%</i>
Securities of Hong Kong listed issuers	1,317.5	85.4	8,182.1	91.5
Securities of companies listed on overseas stock exchanges	226.1	14.6	700.1	7.8
Bonds	–	–	58.6	0.7
<b>Total</b>	<b><u>1,543.5</u></b>	<b><u>100.0</u></b>	<b><u>8,940.8</u></b>	<b><u>100.0</u></b>
	<b><u>8,639.6</u></b>			<b><u>100.0</u></b>

## BUSINESS

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

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

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

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

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

---

## BUSINESS

---

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

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

## BUSINESS

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

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

*Notes:*

- (1) Such ratio is calculated based on the highest and lowest loan-to-value ratios of individual money lending client recorded as at the end date of the relevant year/period but without taking into consideration the unsecured loan and loan secured by guarantee.
- (2) Such ratio is calculated based on the highest and lowest loan-to-value ratios of individual money lending client recorded as at the day-end of each trading date of the relevant year/period but without taking into consideration the unsecured loan and loan secured by guarantee.
- (3) Such ratio is calculated based on the day-end actual loan-to-value ratio of all money lending loans on an individual basis (without taking into consideration the unsecured loan and loan secured by guarantee) of all trading days during the relevant year/period divided by the number of such money lending loans.

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

## BUSINESS

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

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

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

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

## BUSINESS

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

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

### *Interest income*

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

## BUSINESS

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

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

### *Loan management*

#### *Loan application*

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

#### *Credit assessment*

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

---

## BUSINESS

---

### ***Loan approval***

#### *(a) Margin financing*

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

#### *(b) Money lending*

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

### ***Post-loan monitoring***

#### *(a) Margin financing*

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



---

## BUSINESS

---

(b) *Money lending*

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

### **Investment banking**

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

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

## BUSINESS

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

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

### *Fund raising services*

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

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

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

## BUSINESS

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

Notes:

- (1) There is no fixed underwriting commitment as stipulated in the relevant underwriting agreement and CISI Capital received a fixed fee on that particular transaction.
- (2) The years referred to the above refer to the years in which the fund raising transactions we were engaged as underwriter or placing agent (as the case may be) were completed.

### ***Listing sponsorship***

We provide listing sponsorship services for corporate clients who wish to apply for a listing on the Stock Exchange. During the Track Record Period, we were engaged for five proposed listing applications in which we acted in the capacity as the sponsor for the potential listing applicant. We received sponsorship fees of HK\$2.4 million and HK\$1.0 million for the year ended 31 December 2015 and the three months ended 31 March 2016, respectively. After the Track Record Period and up to the Latest Practicable Date, we were engaged for one

---

## BUSINESS

---

additional proposed listing application as the sponsor and had submitted two listing applications to the Stock Exchange. Of these two submitted listing applications, one relates to the listing of our Company, and another one relates to the proposed listing of Da Sen Holdings Group Limited, the listing application of which was submitted in April 2016 and is currently under review by the Stock Exchange and the SFC. During the Track Record Period up to the Latest Practicable Date, we had yet to complete any transaction in which we provided listing sponsorship service.

### *Financial advisory*

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

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

### **Asset management**

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

Our asset management services primarily include:

- *Collective investment scheme*: we manage client assets for a group of clients while keeping client assets in designated accounts pursuant to applicable laws and in accordance with collective asset management contracts;
- *Discretionary account management*: we manage assets for a single client pursuant to a discretionary mandate between the client and us through a discretionary account; and
- *Investment advisory*: we provide investment advice mainly to institutional clients.

### *Collective investment scheme*

We launched our first collective investment scheme in 2012. As at 31 March 2016, we had three outstanding collective asset management schemes, namely IS China Strategy Balanced Fund, CIS Dynamic Growth Fund SP and CIS Excellent Select Fund SP, established in 2013, 2015 and 2015, respectively. The aggregate AUM of all three collective asset management

---

## BUSINESS

---

schemes was HK\$300.2 million as at 31 March 2016. Our collective asset management schemes do not have a minimum duration. The assets under management were mainly stocks or bonds. The minimum subscription threshold is HK\$1 million. The annual management fees amount to approximately 1.5% of the NAV, which might be waived or reduced by us at our discretion. We may also charge performance fees that amount up to 20% of the return on our products.

### *Discretionary account management*

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

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

### *Investment advisory*

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

### **Proprietary trading**

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

## BUSINESS

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

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

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

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

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

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

## BUSINESS

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

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

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

*Notes:*

- (1) Since we had closed all our long positions in our proprietary investment in November 2015 and did not hold investment under proprietary trading business during the three months ended 31 March 2016, as at 31 December 2015 and 31 March 2016, the position of bonds held was reported as nil.
- (2) The above figures are calculated based on the exchange rate of HK\$1:RMB0.7997.

### ***Investment strategies***

Our investment strategy is to actively capture non-high risk opportunities to increase returns on our investments while ensuring sufficiency of working capital and protection of our principal invested. We generally aim to invest into bonds and stocks where we have an in-depth understanding of the relevant issuer and believe there are opportunities for value investing. Our

---

## BUSINESS

---

strategies are to mainly invest in debt securities to increase returns while ensuring principal protection. For equity investments, we will seek to adopt a "value investing" strategy where we aim to identify companies with good growth prospects and invest in stock which are relatively undervalued in the market, after conducting in-depth research and detailed analysis. As we continue to expand our proprietary trading business, our investment strategies evolve to accommodate our business need. The key aspects of our investment strategies are summarised below:

**General selection criteria of debt securities**

- We invest in bonds normally with investment grade ratings (i.e. bonds with BBB-rating or above by international rating agencies)
- We may also invest in non-investment grade bonds with higher return potentials and issued by companies which we have in-depth understanding after applying strict credit selection process
- Duration of bond portfolio is generally around five years, with flexibility based on the investment decision committee's assessment by reference to the market development, macro-economic conditions, expected investment return and diversity in bond duration to optimise investment return

**Asset allocation strategy**

- Bond portfolio shall comprise stable-type bonds which we intend to hold in the longer term and trading-type bonds which we intend to actively trade in the shorter term
- Stable-type bonds are investment-grade bonds with BBB+ rating or above and shall comprise at least 60% of our total investment portfolio. No single stable-type bond investment shall comprise over 15% of our total investment portfolio
- Trading-type bonds are investment-grade, high-yield and convertible bonds which we intend to make gains from active trading. For trading-type investment-grade bonds, no single bond shall comprise over 10% of our total investment portfolio. For trading-type high-yield and convertible bonds, no single bond shall comprise over 5% of our total investment portfolio
- Reasonable diversity in overall debt securities portfolio in terms of country of domicile and the industry in which the issuer operates



## BUSINESS

---

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

---

## BUSINESS

---

### **Risk management and tolerance indicators**

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

Our investment decision committee is responsible for formulating investment policies and guidelines, making major investment decisions and setting authorisation limits on investment activities. Our fixed income department is responsible for the operational aspects of our proprietary trading in accordance with the limits, strategies and guidelines set by our investment decision committee and shall report regularly to our investment decision committee. Any proposed trades which exceed the authorised limit must first be approved by our investment decision committee. We may decide to hold 100% of our proprietary assets in cash over a period of time should our investment decision committee deem such strategy to be prudent. Subject to market conditions and our risk assessment, we strive to seek suitable investment opportunity with an aim to achieving stable return on our cash balance while managing risk by implementing our trading and risk management strategies. We are in the

## BUSINESS

process of adopting more comprehensive risk management measures such as establishing quantitative limits, warning levels or other measures based on VaR (value at risk) data. To manage our risk exposure, we have in place a stop-loss mechanism for investment product. For example, the mechanism would be triggered if the weekly accumulated loss exceeds 1% of the authorised investment capital, or quarterly accumulated loss exceeds 1.5% of the authorised investment capital. We also have adopted other risk control measures such as pre-set trading limits and concentration ratio.

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

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

	<b>As at 31 August 2016</b>	
	<i>(US\$ in million)</i>	
	<i>(unaudited)</i>	
		%
<b>Bond type by issuer ratings (by international rating agencies)</b>		
AAA to A-	177.6	58.3
BBB+ to BBB-	55.4	18.2
BB+ and below	71.6	23.5
	304.6	100.0
<b>Total</b>	<b>304.6</b>	<b>100.0</b>
	<b>As at 31 August 2016</b>	
	<i>(US\$ in million)</i>	
	<i>(unaudited)</i>	
		%
<b>Bond type by nature of the issuer</b>		
Government	43.7	14.3
Financial institutions	165.2	54.3
Corporations	95.7	31.4
	304.6	100.0
<b>Total</b>	<b>304.6</b>	<b>100.0</b>

---

## BUSINESS

---

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

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

### **Wealth management business**

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

Examples of the key wealth management products we offer are:

- **Insurance:** life insurance, general insurance, and unit-linked investment policies.
- **Pension:** MPF and ORSO schemes.

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

## **BUSINESS**

---

### **NOTIFIABLE TRANSACTIONS**

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

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

### **MAJOR CLIENTS**

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

---

## **BUSINESS**

---

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

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

### **SUPPLIERS**

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

### **COMPETITION**

The financial service industry in Hong Kong is highly competitive, featured by a large number of participants in the market. According to Frost & Sullivan, local companies represented the largest player group, which accounted for 82.0% of the total number of market players in 2015. Up to the end of 2015, there were more than 70 mainland PRC-funded securities companies in the market, which accounted for 12.0% of the total number of market players. Among all these players, international investment banks and large-scale mainland PRC-funded players had occupied comparatively large market share in terms of number of transactions and turnover. For details of the competitive landscape of the financial service industry in Hong Kong and the market drivers, see "Industry Overview" in this document.

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

---

## **BUSINESS**

---

### **INFORMATION TECHNOLOGY**

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

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

### **INTELLECTUAL PROPERTY RIGHTS AND PROPRIETARY INFORMATION**

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

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

---

## BUSINESS

---

### EMPLOYEES AND ACCOUNT EXECUTIVES

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

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

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

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

### INSURANCE

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



---

## BUSINESS

---

### PROPERTIES

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

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

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

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

### LEGAL AND REGULATORY COMPLIANCE

#### Licensing requirements

#### *Regulated activities*

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

---

## BUSINESS

---

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

- (a) Licence under SFO to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities
- (b) Stock Exchange Participant (Participant ID: 01938)
- (c) Stock Exchange Trading Right (Distinctive No. 1050)
- (d) Stock Exchange China Connect Exchange Participant (Participant ID: 01938)
- (e) Stock Exchange Options Trading Exchange Participant (HKATS Customer Code: IND)
- (f) SEOCH Direct Clearing Participant (DCASS Customer Code: CIND)
- (g) HKSCC China Connect Clearing Participant (Participant ID: B01938)
- (h) HKSCC Direct Clearing Participant (Participant ID: B01938)
- (i) Futures Exchange Futures Commission Merchant (HKATS Customer Code: IND)
- (j) HKCC Clearing Participant (DCASS Customer Code: CIND)

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

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

## BUSINESS

The number of our Responsible Officers for our Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as at 31 March 2016 were altogether 15. The table below sets forth the breakdown of our Responsible Officers as at 31 March 2016:

	Type 1 (Dealing in securities)	Type 2 (Dealing in futures contracts)	Type 4 (Advising on securities)	Type 5 (Advising on futures contracts)	Type 6 (Advising on corporate finance)	Type 9 (Asset management)
No. of Responsible Officers	10	6	5	2	3	3

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

	Type 1 (Dealing in securities)	Type 2 (Dealing in futures contracts)	Type 4 (Advising on securities)	Type 5 (Advising on futures contracts)	Type 6 (Advising on corporate finance)	Type 9 (Asset management)
No. of Licensed Representatives	101	48	18	-	5	6

### ***Money Lenders Licence***

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

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

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

---

## BUSINESS

---

### Legal proceedings

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

### Regulatory compliance

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

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

## **BUSINESS**

---

confirmed that none of our existing Directors or members of our senior management had been penalised for breach of applicable laws that had a significant or material impact on our business or operations during the Track Record Period and up to the Latest Practicable Date.

### **RISK MANAGEMENT AND INTERNAL CONTROL**

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

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

- (a) the ability to carry on the business in an orderly and efficient manner;
- (b) the safeguarding of our and our client's assets;
- (c) the maintenance of proper records and the reliability of financial and other information used within and published by the business; and
- (d) the compliance with all applicable laws and regulatory requirements.

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

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

## BUSINESS

### Risk management structure

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



### *Our Board*

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

### *Risk management committee*

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

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

---

## BUSINESS

---

### *Responsible Officers*

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

### *Compliance department*

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

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

### *Credit risk management department*

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

As at 31 March 2016, our credit risk management department consisted of three professional staff. The head of our credit risk management department, Mr. Lam Wing Yiu ("**Mr. Lam**"), has over 14 years of professional risk management experience. Mr. Lam graduated from the University of Wollongong in Australia with a Bachelor's degree of Commerce (Finance and Economics) in July 2000 and from the University of New South Wales



---

## BUSINESS

---

in Australia with a Master of Commerce in Fund Management in July 2001. Prior to joining our Group, Mr. Lam worked for Guosen Securities (HK) Financial Holdings Co., Ltd as a Credit Control Officer in Risk Management Department of Sales and Trading Division from December 2013 to February 2014. Mr. Lam worked for BOCOM International Holdings Company Limited as a Vice President of the Risk Management Department from September 2012 to December 2013. Mr. Lam worked in Core Pacific – Yamaichi International (H.K.) Limited from December 2004 to August 2012, and his last position was the Manager of Risk Management Department. He also worked in the Risk Management Department of Core Pacific – Yamaichi International (H.K.) Limited from September 2001 to July 2003. Mr. Lam obtained the Professional Certificate in Financial Risk Management awarded by Li Ka Shing Institute of Professional and Continuing Education, The Open University of Hong Kong in October 2007. He was granted the designation of Financial Risk Manager by the Global Association of Risk Professionals since April 2008.

### *Operations departments*

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

### *IT department*

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

### *Finance department*

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



---

## BUSINESS

---

### Monitoring and management of major risks

#### *Credit risks*

We manage credit risks primarily through the following measures:

- we have established risk management committee primarily responsible for designing risk management structure and strategies for our principal business units, reviewing and monitoring the implementation of risk management policies for our principal business units, identifying risks, approving trading limit and credit limit, and updating our risk management policies in response to changes;
- we have implemented "know-your-client" procedures and credit check to ascertain the background of our potential clients;
- we perform credit assessment on potential clients especially in our loans and financing business, and require our futures brokerage clients and loans and financing clients to provide margin deposit or acceptable collateral (as the case may be) to minimise our exposure;
- we closely monitor the margin ratio and loan-to-value ratio of our loans and financing clients and take appropriate action to recover or minimise our loss where we foresee that our client may default in his or its obligation;
- we have credit risk management department responsible for the evaluation of the customers' creditworthiness, financial background, value of the collaterals provided and repayment abilities in our daily operation;
- we have credit policy with respect to the trading limit, credit line and credit period granted to our brokerage and loans and financing clients, which are subject to our on-going review and revision; and
- we conduct stress tests in respect of our outstanding margin loans to assess our exposure to credit risks.

#### *Liquidity risks*

We manage liquidity risks primarily through the following measures:

- we have in place liquidity risk management system to identify, measure, monitor and control potential liquidity risk and to maintain our liquidity and financial resources requirements as specified under applicable laws and regulations, such as FRR. Monthly financial statement analysis and variance comparison against budget are performed by the management to identify any potential capital shortfall;
- we have established a multi-tiers authorisation mechanism and internal policies for the management and approval of the use and allocation of capital. Authorisation limits are set for any commitment or fund outlay, such as procurement, investments, loans, etc.. Our finance department assesses the impact of those transactions on the capital level;

---

## BUSINESS

---

- we meet our funding requirements primarily through bank borrowings from multiple banks. We have also adopted stringent liquidity management measures to ensure we satisfy capital requirements under the applicable laws; and
- we have established limits and controls on margin loans and money lending loans on an aggregate and individual loan basis.

### *Operational risks*

We manage operational risks primarily through the following measures:

- we have Responsible Officers responsible for overseeing our day-to-day operations, controlling and monitoring compliance issues and solving dealing problems;
- we have formulated operational manual for each business function to standardise our operational procedures and reduce human errors. We have surveillance systems to monitor the trading activities of our business units and staff on a real-time basis;
- we set authorisation hierarchy and procedures for our daily operations, such as granting trading limit and credit line and closing out error trades, to reduce the risk of unauthorised activities;
- we have implemented a policy requiring our dealing staff to follow order taking procedures and report to the Responsible Officer and compliance department in writing as soon as they are aware of any error trade, and close out error position in accordance with our internal policy;
- we require all trading information be uploaded simultaneously to our computer system or recorded in accordance with our paper filing system and be backed up on a daily basis. Records relating to our clients in our regulated activities shall be kept for at least seven years. Client telephone records shall be kept for at least six months as required by the Code of Conduct; and
- we provide regular training and formulate contingency plans to increase the capability of our staff to manage operational risks in emergency situations, such as system breakdown or power failure.

### *Regulatory and legal risks*

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

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

---

## BUSINESS

---

- we have formulated compliance and operational manual for each business function, which shall be observed by our employees at all levels;
- our finance department monitors our compliance with the FRR on an ongoing basis. Under our policy, liquid capital estimation is computed on a daily basis to ensure that timely information is conveyed to our management. In addition, we submit an FRR report to the SFC on a monthly basis;
- we require client money be deposited and held into the segregated accounts with authorised financial institutions in accordance with the Securities and Futures (Client Money) Rules. Our finance department monitors the daily reconciliation of client trust bank accounts and our bank account for funding and settlement purposes to ensure compliance with the Securities and Futures (Client Money) Rules, conducts review regularly and takes remedial actions as soon as we notice any discrepancy;
- we have implemented "know-your-client" procedures across our business functions. For example, the execution team in our investment banking business conducts due diligence in connection with each transaction, including review of due diligence materials, on-site visits, attendance at meetings, conducting interviews with issuers or listing applicants and their directors, senior management and employees;
- through our surveillance system, we closely monitor and detect unusual and irregular trading activities, and generate exceptional trade report to our compliance department and relevant department head or Responsible Officers for further action;
- our compliance department closely monitor our licensing status and conditions, and arrange for the renewal of licence such as our money lender licence before expiry. Our compliance department is required to notify the regulator in accordance with the notification requirements of the Code of Conduct and/or other applicable laws, rules, regulations and guidelines;
- we have implemented procedures and appointed complaints officer under our compliance department for handling complaints received from clients in relation to our regulated activities; and
- our compliance department arranges for continuous professional training on topics such as anti-money laundering for our staff from time to time.

### ***Market risks***

We manage market risks primarily through the following measures:

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

---

## BUSINESS

---

- we review market risk limits for certain business lines such as our asset management and proprietary trading business to manage risk and periodically review and adjust our market strategies in response to changes in our business performance, risk tolerance levels and variations in market conditions;
- we review our trading positions on a daily basis and general market condition from time to time;
- our investment decision committee is responsible for formulating investment policies and guidelines and our investment managers are responsible for executing investment decisions;
- our business units such as investment banking department internally discuss and evaluate market risks relating to potential new engagement and new businesses prior to engaging in any such new transaction or launching of any such new business;
- our risk manager monitors our daily asset management activities to ensure that the investment strategy and scope, asset allocation, selection of asset class and concentration level of each asset management product matches its product descriptions and disclosure in marketing materials; and
- our mandate committee and underwriting committee under our investment banking department make decisions before acceptance of new engagement and during the process of each IPO transaction and those transactions that have been classified as highly risky.

### **Risk management and internal control measures for our brokerage business**

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

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

---

## BUSINESS

---

*Credit policy* : We may set a trading limit for cash account or margin account clients on a case-by-case basis to minimise our exposure between trade execution and settlement. We have established an approval hierarchy for different tiers of trading limit granted to clients. For futures brokerage clients, we require them to make deposit and close out the position if such clients fail to replenish our required deposit.

*Order taking* : Our staff responsible for handling clients' orders must be registered with the SFC as either a Responsible Officer or a Licensed Representative.

All client orders shall be received from and/or confirmed to clients using our internal telephone recording system or processed through our online trading platform. Our staff must follow our order taking procedures to ensure client orders are executed promptly and in accordance with our client's instructions. Trading records shall be reviewed after trading hours and recorded and backed up on a daily basis. Trading error shall be promptly reported and rectified in accordance with our internal policy.

*Transaction monitoring* : Our surveillance system monitors client transactions on a real-time basis and detect unusual or irregular trading activities. The system adopts pattern recognition for detection of transaction activities that may be intended to manipulate markets in financial instruments. For example, the system generates alerts where a client has placed significant buy and sell trades within a short time period or where a trader has placed large orders in terms of volume or converted value in a specific instrument. For post-trade monitoring, exceptional trade report is generated to our compliance department and relevant Responsible Officers or department head for further analysis and investigation.

---

## BUSINESS

---

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

### **Risk management relating to our loans and financing business**

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

*Risk management structure* : We have multi-levels risk management system to monitor our risks associated with this business line and formulate and revise risk management policies and internal control measures in response to changing credit environment.

*Risk disclosure* : For margin financing, before we sign the client agreement, our staff explains to our client the terms of the agreement and the risks involved in applying for margin financing and consequence for failing to meet our margin calls.

For money lending, in addition to the contractual terms required under the Money Lenders Ordinance, client's attention is drawn to the provisions of Part III and Part IV of the Money Lenders Ordinance before we sign the loan agreement with client.

*Credit assessment* : For details, see "Business – Our business – Loans and financing – Loan management". Further, we also assess the market value, type, liquidity and volatility of securities offered as collateral on a regular basis.

---

## BUSINESS

---

*Credit policy* : We approve credit line for each margin account client on a case-by-case basis with close reference to our credit assessment results as well as the prevailing market conditions. Credit line is the standby loan facility which could be granted to a client. We have in place an approval hierarchy for different tiers of credit line granted to our clients. We adopt similar credit policy for clients of our money lending business.

*Collateral requirement* : For margin financing, we require our client to provide with us collateral sufficient to cover the loan amount when we grant the loan. Normally only securities quoted on the Stock Exchange are eligible as collateral. In addition to listed securities, we also accept other collateral such as securities listed on overseas stock exchanges and bonds. The market values of overseas securities can be assessed based on the daily trading prices quoted on the relevant stock exchange, whereas the market value of the bonds can be ascertained based on the reference prices quoted on third party information platform. Our credit risk management department monitors the market value of securities listed on overseas stock exchanges and bonds based on public market information on a daily basis and our head of credit risk management department had over 14 years of professional risk management experience. Additional collateral or further security may be sought during the term of the loan to manage our exposure against fluctuation of the value of the collateral received.

Similar collateral requirements apply to money lending clients of secured loans.

---

## BUSINESS

---

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

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

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

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



---

## BUSINESS

---

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

---

## BUSINESS

---

### *Risk management relating to our investment banking business*

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

- we have operational manual setting out work procedures and risk management with respect to taking up new appointment, project planning, execution and closing, the reporting lines at different stages of the transactions and the restrictions and supervisions on dealings by our staff;
- we have established two committees under our investment banking segment, namely, the mandate committee and the underwriting committee, for the purpose of making decisions before acceptance of new engagement and in the process of each IPO transaction and those transactions that have been classified as highly risky under the risk assessment. These committees which comprise senior personnel of our investment banking department, representatives from the management team and compliance department hold meetings to determine whether to proceed with the prospective engagement in a potential transaction, evaluate the risk involved, discuss how to mitigate risks during the engagement and submit their recommendation to our senior management for approval where required;
- our execution team conducts thorough due diligence in connection with each transaction, including conducting "know-your-client" procedures, reviewing due diligence materials, business, financial and legal matters, conducting on-site visits, conducting interviews with issuers and their directors, senior management and employees; and
- our compliance department and, in some cases, our external legal counsel are responsible for reviewing agreements relating to our investment banking business.

### *Risk management relating to our asset management business*

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

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

## **BUSINESS**

---

- our investment decision committee comprised our chief executive officer, Mr. Huang Jinguang, our deputy chief executive officer, Mr. Wang Xiang, our deputy chief executive officer and chief financial officer, Ms. Zeng Yanxia, our head of asset management division, Mr. Liu Chung Kuang, our head of compliance, Mr. Cho Ka Wai and our head of finance department, Mr. Wang Luning. As at the Latest Practicable Date, we were still in the process of recruiting our head of investment department and head of research department who would form part of the investment decision committee. For the relevant qualifications and experiences of other committee members, please refer to the section headed "Directors, Senior Management and Staff";
- we have maintained a carefully selected "securities pool" for our investments based on research recommendations given by our research department. The selected "securities pool" is reviewed on a quarterly basis. Our investment managers are allowed to invest only in securities in the pool unless prior written approval is obtained;
- for asset management schemes invested in equity securities, we have mechanisms that sets pre-determined limits to stop profit or loss in relation to any single security or an asset portfolio. We also set authorized limits on investment in any single security in an asset portfolio and require further approval for any trade beyond such limit;
- we require our asset management business to be segregated from our brokerage, wealth management and investment banking businesses in order to prevent insider trading and avoid conflicts of interest;
- we are required to assess the potential client's financial condition, investment experience, investment preferences, risk awareness and risk tolerance level so that we can recommend products or services suitable for the client's risk tolerance level. We also require our clients to provide assurance on the legality of the source of the assets under management. Further, we require our client to make acknowledgement of the risks involved in subscribing the relevant investment products;
- we maintain segregated asset management accounts at qualified commercial banks and authorized financial institutions to hold client funds; and
- we monitor transaction activities on a timely basis and unusual trading activities shall be reported to our relevant Responsible Officers or department head and compliance department for review and taking further action.

---

## BUSINESS

---

### *Risk management relating to our proprietary trading business*

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

- We have established a multi-level management system for our proprietary trading business:
  - our Board: our Board determines the overall size of our proprietary investment and is the highest decision making body for determining and authorising our investment strategy;
  - our investment decision committee: our investment decision committee is the highest management body for all classes of proprietary trading. Our investment decision committee is responsible for formulating investment policies and guidelines, making major investment decisions and setting authorisation limits on investment managers in investment activities. Our investment decision committee evaluates and adjusts our investment strategies from time to time based on research and analysis of the latest changes and developments in the securities market, economic conditions and government policies. It also sets risk control indications related to assets allocation between our proprietary trading and single security investment product based on our Company's investment business development needs; and
  - our fixed income department: our fixed income department is responsible for execution of our proprietary trading in accordance with the strategies and limits set by our Board and our investment decision committee. The head of the department should supervise different teams to conduct research on investments, execute trade orders and monitor daily operations to implement effective risk control.
- Our investment decision committee comprised our chief executive officer, Mr. Huang Jinguang, our deputy chief executive officer, Mr. Wang Xiang, our deputy chief executive officer and chief financial officer, Ms. Zeng Yanxia, our head of fixed income department, Mr. Qian Jin ("**Mr. Qian**"), our head of compliance, Mr. Cho Ka Wai and our head of finance department, Mr. Wang Luning. Mr. Qian has over nine years' experience in trading and investment in equity and debt securities. Prior to joining our Group, Mr. Qian worked for various financial institutions as a licensed representative. From April 2013 to April 2016, he worked for Hyundai Securities (Asia) Limited as the bond trader and director. Mr. Qian graduated from the London Business School with a Master of Science degree in Finance in September 2005 and a Master of Business Administration from Solvay Brussels School in Belgium in September 2001. He obtained a Bachelor's degree of Economics with a major in Human Resource Management from Shanghai Jiao Tong

---

## BUSINESS

---

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

- Our management and execution teams are required to adhere to a strict decision-making and execution process when conducting proprietary trading:
  - our investment research team has established a securities pool based on their research and analysis, and our investment managers shall make investment portfolio decisions only among those securities for our proprietary trading;
  - we determine our scale of investment and risk tolerance thresholds and adjust our actual trading activities and portfolio based on prevailing market conditions and our investment strategies;
  - our investment decision committee holds monthly meeting and *ad hoc* meetings when appropriate to determine and review the risk management strategies, scale of investment, risk tolerance levels and trading limits;
  - we have set trading limits on the ratio of individual stocks, and authorise our investment managers to make investments within the pre-set limits. The specific ratios are as follows: the cost of each fixed income securities held in any stable interest income securities portfolio shall not be more than 15% of the total authorised investment amount; the cost of each fixed income securities held in any trading debt securities portfolio shall not be more than 10% of the total authorised investment amount; the amount of equity securities and derivatives shall not be more than 10% of the total authorised investment amount; and the cost of each equity securities held shall not be more than 5% of the total authorised investment amount;
  - investment orders made by investment managers are executed by our Group's brokerage department and all trades shall be executed in accordance with our trading and risk management guidelines and the relevant rules and regulations governing such trades. Approval from our investment decision committee is required for any investments exceeding our pre-set trading limits or material adjustments in asset allocation; and

---

## BUSINESS

---

- our risk control team is responsible for monitoring the daily operations of our proprietary trading activities and to ensure compliance with our trading policies. The team shall prepare daily reports on the settlement and risk control indicators on our investments.
- We have implemented the following measures in managing risks relating to our proprietary trading business:
  - we may leverage our investment to improve return and the gearing ratio will be strictly maintained at below 50%, as determined by our investment decision committee;
  - we determine our asset allocation by evaluating the future trends of the investment environment and analysing changes in the structure of fund supply and demand in the financial markets, based on domestic and overseas macro-economic directions and changes in interest rate policies;
  - for the asset allocation amongst various types of bonds in our portfolio, we also assess the spread level, relative investment values, relative yield, shape of yield curve, major risks, degree of liquidity and capability of revenue generation of different types of bonds;
  - we monitor our investments on a timely basis, including our trading positions, unrealised profit or loss, risk exposure and trading activities;
  - we diversify our investments and limit the size of our investment in relation to any single product, client or type of investment; and
  - we establish mechanisms that set pre-determined points to stop profit or loss on an overall basis or on each individual stock. For instance, if the floating loss of any single bond reaches a level of more than 5% (calculated based on the daily closing price against cost price), the relevant bond will be put under observation; if the floating loss of any single bond reaches a level of more than 10% (calculated based on the daily closing price against cost price), the relevant bond will be put under a state of alert and the risk management unit of our proprietary trading business will inform our head of fixed income department, our compliance department and the relevant investment managers in writing regarding any fluctuations of the relevant bond on a daily basis.

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

- we have developed investment strategies for bond portfolio. See “Business – Our Business – Proprietary trading – Investment strategies” for details;
- to manage our credit and market risk exposure, we have adopted stringent selection strategies for different types of bonds we will invest;

---

## **BUSINESS**

---

- we formulate different selection criteria for bonds, limit the investment in industries and enterprises with excess capacity and negative news, and track and monitor the trends of macro economy and investment concentration ratio to optimise our investment strategies;
- on portfolio level, we have stop-loss mechanism in place. See “Business – Our Business – Proprietary trading – Investment strategies” for details;
- we diversify fixed income investment portfolios, and continually track the changes on the operation, credit rating and solvency of the issuers; and
- we control the investment horizon of our debt securities investment. We will set up a “bonds pool” in line with our business needs which will govern our daily investment activities to ensure stable long term gains. Changes in the selected “bonds pool” will be reviewed by our investment decision committee on a monthly basis.

### **Conflict of interests**

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

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

### **Compliance with FATCA**

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

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



## **BUSINESS**

---

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

### **Staff dealing rules**

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

### **Segregation of business**

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

### **Chinese wall**

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

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



## **BUSINESS**

---

### **Compliance with the Personal Data (Privacy) Ordinance (“PDPO”)**

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

### **Anti-money laundering**

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

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

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

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

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

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

---

## BUSINESS

---

### IT risk management

#### *Circular on Information Technology Management*

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

- (a) Information security policy;
- (b) Access control;
- (c) Encryption;
- (d) Change management;
- (e) User activities monitoring; and
- (f) Data backup and continuity planning.

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

#### *Access controls*

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

## BUSINESS

### INDEPENDENT REVIEW OF INTERNAL CONTROL SYSTEM

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

	Key area of concern	Area of business operation	Findings	Remedial actions taken
(i)	Control environment	Internal policies	<ul style="list-style-type: none"> <li>Procedure for evaluating potential investments and ventures was not established</li> </ul>	<ul style="list-style-type: none"> <li>Procedure for evaluating potential investments and ventures is established, which includes evaluation, review, approval and monitoring processes</li> </ul>
(ii)	Revenue Management: margin financing	Margin call	<ul style="list-style-type: none"> <li>Documentation on margin securities liquidation assessment was incomprehensive to include the factors considered and the rationale to justify the liquidation or deferral of liquidation of securities pledged for margin loan</li> </ul>	<ul style="list-style-type: none"> <li>Our Group enhanced the template of the “Margin Securities Liquidation Assessment Form”, to include the factors considered and the rationale for margin liquidation assessments</li> </ul>
(iii)	Revenue Management: asset management	Asset management	<ul style="list-style-type: none"> <li>Lack of documentary records for internal assessment of investment product cost, profit margin, risk and feasibility</li> <li>General manager’s approval records on new investment products were not maintained</li> <li>Due to the departure of personnel and manpower limitation, for a certain period of time, duties were not properly segregated between marketing division and risk management division</li> <li>For clients referred internally by other subsidiaries of our Group, our asset management business unit did not perform a separate anti-money laundering assessment</li> </ul>	<ul style="list-style-type: none"> <li>Our Group concurs with the suggestions and written records will be produced and maintained in future events of introducing new products and product assessment</li> <li>Approval records by general manager on new investment products are documented and maintained</li> <li>New staff has been appointed to take up the duties of risk management division to ensure duties are properly segregated</li> <li>Our asset management business unit will perform a separate anti-money laundering assessment for clients referred by other subsidiaries of our Group</li> </ul>

---

## BUSINESS

---

	Key area of concern	Area of business operation	Findings	Remedial actions taken
(iv)	Revenue Management: proprietary trading	Internal policies	<ul style="list-style-type: none"><li>Written operation manual for our proprietary trading business segment was not comprehensive enough to specify the approval authorities within our proprietary trading business segment, and the reporting frequencies and contents to the management</li></ul>	<ul style="list-style-type: none"><li>Proprietary trading operation manual is enhanced to include the approval authorities within our proprietary trading business segment, and the reporting frequencies and contents to the management</li></ul>
(v)	Revenue Management: loans and financing	Internal policies	<ul style="list-style-type: none"><li>Certain credit risk management procedures including the annual review of outstanding loans, managing collaterals and guarantee were not documented in the written manual for our money lending business</li></ul>	<ul style="list-style-type: none"><li>Money lending operation manual is enhanced to include the annual review of outstanding loans, managing collaterals and guarantee</li></ul>
(vi)	General computer controls	Financial information technology systems	<ul style="list-style-type: none"><li>System backup and restore environment were not extended to our Group's accounting system</li></ul>	<ul style="list-style-type: none"><li>System backup and restore environment is created and extended to our Group's accounting system</li></ul>

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

---

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

---

### OUR CONTROLLING SHAREHOLDERS

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

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

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

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

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

---

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

---

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

### INDEPENDENCE OF OUR GROUP

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

#### (i) Financial independence

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

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

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

#### (ii) Operational independence

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

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

---

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

---

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

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

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

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

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



## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

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

### (iii) Management independence

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

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

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



## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

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

*Notes:*

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

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

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

---

## **RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS**

---

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

### **COMPETING BUSINESS**

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

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

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

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

---

## **RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS**

---

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

### **DEED OF NON-COMPETITION**

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

---

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

---

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

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

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

In addition, the Covenantors have undertaken to us:

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

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

---

## **RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS**

---

### **CORPORATE GOVERNANCE**

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

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

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

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

---

## CONNECTED TRANSACTIONS

---

### CONNECTED PERSONS

Upon the [REDACTED], under the GEM Listing Rules the transactions of our Group with the connected persons as defined under the GEM Listing Rules will constitute connected transactions of the Group.

#### *Industrial Securities (Hong Kong)*

Industrial Securities (Hong Kong) is the applicant of the applications for the registration or the licensee, as the case may be, of the Hong Kong Trademarks (defined below). Industrial Securities (Hong Kong) is our Controlling Shareholder and any of our transaction with it will constitute a connected transaction.

#### *Industrial Securities (Shenzhen)*

Industrial Securities (Shenzhen) is a wholly owned subsidiary of our Controlling Shareholder, Industrial Securities (Hong Kong), and any of our transaction with it will constitute a connected transaction.

Upon the [REDACTED], the following transactions will constitute continuing connected transactions under the GEM Listing Rules for our Company.

### EXEMPT CONTINUING CONNECTED TRANSACTIONS

#### **Trademark Licensing Agreement**

We have entered into a Trademark Licensing Agreement with Industrial Securities (Hong Kong) on 6 June 2016. Pursuant to the Trademark Licensing Agreement, Industrial Securities (Hong Kong) has granted us a non-transferable and non-assignable license to use the trademarks as set out in the paragraph headed "Further information about the business – Intellectual property rights – Hong Kong Trademarks" (the "**Hong Kong Trademarks**") in Appendix IV in this document in Hong Kong, for HK\$1 per annum.

Our Company is licensed to use the Hong Kong Trademarks for our business and any related businesses. Industrial Securities (Hong Kong) has granted licenses to our Company to use such trademarks for a term of three years commencing on the date of the agreement. In accordance with the Trademark Licensing Agreement, Industrial Securities (Hong Kong) may not terminate the Trademark Licensing Agreement without the explicit written consent of the Company, the Trademark Licensing Agreement shall be renewable upon written request of the Company under the same terms and conditions upon expiry of the initial term of three years, and each renewal shall be of a term of three years.

As our own business and operations are independent from our Controlling Shareholders, and as we are able to secure our own client base who is attracted by the sophistication and business capabilities of the Group, we have the flexibility of deciding whether to renew the Trademark Licensing Agreement for the continued use of any or all of the Hong Kong

---

## CONNECTED TRANSACTIONS

---

Trademarks before the expiration of the Trademark Licensing Agreement. Given that our Group is the only operation platform of Industrial Securities (Hong Kong) in Hong Kong, and that Industrial Securities (Hong Kong) has undertaken to the Company that it will not directly or indirectly engage, participate in or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of any member of the Group in Hong Kong, the Company currently does not foresee any obstacle for renewing the Trademark Licensing Agreement.

As at the Latest Practicable Date, pursuant to the Trademark Licensing Agreement, our Company is the only subsidiary of Industrial Securities (Hong Kong) which is licensed to use the Hong Kong Trademarks.

For further information on the trademarks that our Company is licensed to use, please refer to the paragraph headed "Further information about the business – Intellectual property rights" in Appendix IV in this document.

### **RQFII Agreement**

We have entered into an agreement with Industrial Securities (Hong Kong) on 27 September 2016 for use of the RQFII quota of Industrial Securities (Hong Kong) for consideration of HK\$1 per annum. The RQFII quota granted by the State Administration of Foreign Exchange to Industrial Securities (Hong Kong) which is a RQFII license holder. According to applicable PRC laws and regulations, a RQFII license shall be obtained through applications made to CSRC who shall grant such approval based on the individual circumstances of each applicant, and since the RQFII license was registered under the name of Industrial Securities (Hong Kong) the License is not transferable in nature. Pursuant to the Announcement No. 14 [2013] of the China Securities Regulatory Commission – Provisions on the Implementation of the Measures for the Pilot Program of Securities Investment in China by RMB Qualified Foreign Institutional Investors, to apply for the RQFII license, an applicant shall, among other requirements, be a Hong Kong subsidiary of a domestic fund management company, securities company, commercial bank or insurance company, or a financial institution with registration place or major business place in Hong Kong. The Company, which is a Cayman Islands Company, per se does not satisfy such requirement, therefore the Company is not eligible to apply for a RQFII license. The term of the RQFII Agreement is three years commencing on the date of the agreement and such term is subject to renewal upon the written request of our Company, and each renewal shall be of a term of three years. The amount of RMB2 million maintained by Industrial Securities (Hong Kong) as deposit for maintaining the RQFII quota is treated as amount due from our Controlling Shareholder as a result of the Reorganisation. Such amount will be fully settled before [REDACTED].



---

## CONNECTED TRANSACTIONS

---

The transactions contemplated under the Trademark Licensing Agreements and the RQFII Agreement are entered into in our ordinary course of business and on commercial terms favourable to us and are expected to constitute the *de minimis* transactions under Chapter 20 of the GEM Listing Rules. As a result, these transactions will constitute fully exempt continuing connected transactions pursuant to Rule 20.74(1) of the GEM Listing Rules and thus will be fully exempt from all disclosure, annual review and shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. Our Directors consider that the terms of the Trademark Licensing Agreements and the RQFII Agreement are in the interests of our Company and the Shareholders as a whole.

### NON-EXEMPT CONTINUING CONNECTED TRANSACTION

#### Service Agreement

On 27 September 2016, the Company and Industrial Securities (Shenzhen) entered into a service agreement (the "**Service Agreement**") pursuant to which Industrial Securities (Shenzhen) agreed to provide consultancy services to the Company, including the provision of consultancy service on economic information, and assisting the Company in collecting and analysing information on macroeconomics, industry news and market information in the PRC. The major reason for such arrangement is to lower the staff and other operating costs for our Group. The term of the Service Agreement is for three years from 1 January 2016 to 31 December 2018.

Industrial Securities (Shenzhen) is principally engaged in the provision of consultancy services to the subsidiaries of Industrial Securities (Hong Kong) (including the Group).

Pursuant to the Service Agreement, Industrial Securities (Shenzhen) has agreed to provide consultancy services to the Group, including the provision of consultancy service on economic information, and assisting the Company in collecting and analysing information on macroeconomics, industry news and market information in the PRC, at cost, plus a mark up of 6%.

The mark up of 6% represents the business tax of 6% on the revenue of Industrial Securities (Shenzhen). Such cost based pricing mechanism will ensure that the pricing of the consultancy fees is no less favourable than those offered by independent parties. In addition, as set out in the paragraph "GEM Listing Rule implications" below, going forward, the independent non-executive Directors will review the Service Agreement and check whether, among others, the transactions contemplated thereunder are on normal commercial terms or better. For further details, please refer to the paragraph headed "GEM Listing Rule implications" below.

On these basis, the Company is of the view that the Service Agreement was entered into on an arm's length basis and that the terms thereof including the pricing are fair and reasonable and are in the interest of the Shareholders as a whole.



---

## CONNECTED TRANSACTIONS

---

### *Historical transaction value*

For the two years ended 31 December 2015 and the three months ended 31 March 2016, the total costs incurred by Industrial Securities (Shenzhen) for provision of the services mentioned above to the Group amounted to HK\$2.2 million, HK\$7.6 million and HK\$1.0 million, respectively on the basis of actual costs incurred by Industrial Securities (Shenzhen).

### *Annual caps*

The proposed cap amounts for the provision of abovementioned services by Industrial Securities (Shenzhen) to the Company is approximately HK\$8.2 million, HK\$10.2 million and HK\$12.1 million for each of the three years ending 31 December 2018, respectively. The proposed cap amounts in 2016 was based on the operational costs incurred by Industrial Securities (Shenzhen) for providing the services covered by the Service Agreement in 2015 plus an estimated increase in such costs in 2016 as Industrial Securities (Shenzhen) is investing more resources to support the business needs and development of the Group which enlarges the costs base and increases the costs, including but not limited to staff costs. The estimated growth in the total costs incurred by Industrial Securities (Shenzhen) in 2016 takes into account: (i) there have been six new hires of Industrial Securities (Shenzhen) as at the Latest Practicable Date and there are another two new hires being processed and such cost incurred by the new hires has not been settled with the Company; and (ii) according to the payment arrangement between the Company and Industrial Securities (Shenzhen), majority part of the service fee is settled during the fourth quarter due to business need of Industrial Securities (Shenzhen). It is expected that the proposed cap amounts would increase by approximately 24.4% and 18.6% in 2017 and 2018 respectively due to estimated increases in operating costs, including but not limited to the increase in number and salary of the employees and rental payment for office space. Each of the annual caps are calculated and rounded up to the nearest 0.1 million.

It is expected that for the years ending 31 December 2016, 2017 and 2018, the anticipated new hires would result in an increase of salary costs of HK\$0.5 million, HK\$0.6 million and HK\$0.5 million, respectively, and the anticipated increase in rental payment for office spaces would result in an increase of rent to approximately HK\$326,000, HK\$469,000, HK\$618,000, respectively for each of the years ended 31 December 2016, 2017 and 2018.

In addition, it is expected that there will also be inflation in the PRC in the coming three years which will further increase the overall costs. Our Directors, including independent non-executive Directors, consider that the Service Agreement has been and shall be entered into on an arm's length basis and in the ordinary and usual course of business of our Group.

### *GEM Listing Rule implications*

As the highest percentage ratios in respect of the transactions completed under the Service Agreement will exceed 5% and the consideration will exceed HK\$10,000,000, upon completion of the [REDACTED], the transactions contemplated under the Service Agreement will constitute non-exempt continuing connected transactions under the GEM Listing Rules, and we will need to comply with the reporting, announcement and independent shareholders' approval requirements.

---

## CONNECTED TRANSACTIONS

---

Our Directors (including independent non-executive Directors) are of the view that the continuing connected transactions under the Service Agreement have been and shall be entered into on normal commercial terms and in the ordinary and usual course of business of our Company that are fair and reasonable and in the interest of the Shareholders and will be so in the future, and the transactions and proposed annual caps set out above are fair and reasonable and in the interests of our Shareholders as a whole. Pursuant to Rule 20.103 of the GEM Listing Rules, we have applied for the continuing connected transaction under the Service Agreement to be exempt from strict compliance with the announcement and independent shareholders' approval requirements and the Stock Exchange has granted a waiver in relation thereto. Except for the waiver granted to exempt from compliance with announcement and independent shareholders' approval requirements under Rules 20.33 and 20.34 of the GEM Listing Rules, our Company will comply with the relevant requirements of Chapter 20 of the GEM Listing Rules, including Rules 20.32, 20.49, 20.50, 20.51, 20.53, 20.54 and 20.69 of the GEM Listing Rules. Our Company confirms that for the purpose of Rules 20.53 and 20.54 of the GEM Listing Rules, all the relevant contracts in relation to continuing connected transactions in the relevant years as disclosed above are available for review by the independent non-executive Directors and auditors of our Company. Our independent non-executive Directors and auditors will check whether, among others, the relevant continuing connected transactions are entered into in accordance with the terms and pricing disclosed in this document, whether the transactions contemplated thereunder are on normal commercial terms or better, and will disclose their confirmation annually in accordance with the requirements of the GEM Listing Rules.

### *Joint Sponsors' view*

The Joint Sponsors are of the view that (i) the non-exempt continuing connected transaction under the Service Agreement was and will be entered into in the ordinary and usual course of business of our Company, on normal commercial terms, are fair and reasonable and in the interests of the Shareholders as a whole, and (ii) the proposed annual caps for the non-exempt continuing connected transactions are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

---

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

---

### DIRECTORS

Our Board consists of 8 members, of which 3 are executive Directors, 2 are non-executive Directors and 3 are independent non-executive Directors. Our Board is responsible and has general powers for the management and conduct of our businesses. The table below sets out certain information in respect of our Directors:

Name	Age	Position	Date of joining the Group <sup>Note</sup>	Date of appointment as a Director	Responsibilities
Lan Rong	55	Chairman and non-executive Director	5 July 2011	1 June 2016	Strategic development of the businesses of our Group
Zhuang Yuanfang	46	Non-executive Director	29 August 2012	1 June 2016	Monitoring and supervising the general management, investments and operations of our Group
Huang Jinguang	46	Executive Director and chief executive officer of the Company	5 July 2011	21 July 2015	Overall management of the operations of our Group, and the day-to-day management of our Group's businesses and operations
Wang Xiang	36	Executive Director and a deputy chief executive officer of the Company	1 January 2012	1 June 2016	Assisting the chief executive officer with overall administration of business operations of the Group, and participating in the day-to-day management of the Group's businesses and operations

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

Name	Age	Position	Date of joining the Group <sup>Note</sup>	Date of appointment as a Director	Responsibilities
Zeng Yanxia	39	Executive Director and a deputy chief executive officer of the Company as well as chief financial officer	23 March 2016	1 June 2016	Assisting the chief executive officer with overall management and supervision of the financial aspects of our Group's operations, and participating in the day-to-day management of our Group's businesses and operations
Hong Ying	65	Independent Non-executive Director	27 July 2016	27 July 2016	Provision of oversight and independent judgment
Tian Li	47	Independent Non-executive Director	27 July 2016	27 July 2016	Provision of oversight and independent judgment
Qin Shuo	47	Independent Non-executive Director	27 July 2016	27 July 2016	Provision of oversight and independent judgment

*Note:* The date of joining the Group in this table above includes the dates of joining members of the Group prior to the reorganisation of such members into the Group, and also include the date of joining Industrial Securities (Hong Kong) which had been immediate holding company of the members of the Group before the Reorganisation.

---

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

---

The biographies of our Directors are set out as follows:

### Non-executive Directors

**Mr. Lan Rong (蘭榮)**, aged 55, was appointed as a non-executive Director and the chairman of our Board on 1 June 2016. As chairman of our Board, he is responsible for the strategic development of the businesses of our Group.

Mr. Lan has over 25 years of experience in the financial services industry. From April 1994 to November 1999, Mr. Lan was the president of Industrial Securities. Since December 1999 and as at the Latest Practicable Date, Mr Lan is the chairman of the board of directors of Industrial Securities, since July 2011 and as at the Latest Practicable Date, he is the chairman of the board of directors of Industrial Securities (Hong Kong), and since April 2010 and as at the Latest Practicable Date, he is the chairman of the board of directors of Industrial Innovation Capital Management Co. Ltd. (興業創新資本管理有限公司).

He is currently serving as a part-time vice chairman of the Securities Association of China. Mr. Lan was an independent non-executive director of Jutal Offshore Oil Services Limited (巨濤海洋石油服務有限公司), an oil and gas company listed on the Stock Exchange (stock code: 03303) from May 2008 to July 2015.

Mr. Lan graduated from Jiangxi University of Finance and Economics, the PRC, in July 1983 with a bachelor's degree in finance. He further obtained an EMBA degree from the Cheung Kong Graduate School of Business, the PRC, in April 2007.

**Ms. Zhuang Yuanfang (莊園芳)**, aged 46, was appointed as a non-executive Director on 1 June 2016. Ms. Zhuang's primarily responsibilities are to monitor and supervise the general management, investments and operations of our Group. Ms. Zhuang has over 24 years of experience in the financial services industry.

Ms. Zhuang joined the transactions department of the Industrial Securities Group in September 1992. From July 1995 to July 1996, Ms. Zhuang successively served as assistant to the general manager and the chief of the transactions department of the Industrial Securities Group. From July 1996 to August 2004, Ms. Zhuang successively served as the deputy general manager and general manager of the securities investment department of the Industrial Securities Group. From August 2004 to November 2005, Ms. Zhuang was appointed as the chief investment officer of the Industrial Securities Group, and from December 2005 and as at the Latest Practicable Date, Ms. Zhuang served as the deputy president of the Industrial Securities Group.

As at the Latest Practicable Date, Ms. Zhuang is also the chairman of the board of directors of Aegon-Industrial Fund Management Co. Ltd. (興業全球基金管理有限公司), an investment management firm, an executive director of Industrial Securities Investment Management Co., Ltd (興業證券投資管理有限公司), and a director of each of Industrial Securities (Hong Kong) and Industrial Innovation Capital Management Co. Ltd (興業創新資本管理有限公司).

---

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

---

Ms. Zhuang obtained a bachelor's degree in world economics from Fudan University, the PRC, in July 1992, and a postgraduate master's degree in business management from Fudan University, the PRC, in July 2001. In September 2008, Ms. Zhuang completed an EMBA degree at the Cheung Kong Graduate School of Business, the PRC.

### Executive Directors

**Mr. Huang Jinguang (黃金光)**, aged 46, was appointed as a Director on 21 July 2015 and re-designated as an executive Director on 1 June 2016, and was further appointed as chief executive officer of the Company on 8 June 2016. Mr. Huang is primarily responsible for the overall management of the operations of our Group, and the day-to-day management of our Group's businesses and operations. Mr. Huang has over 23 years of experience in the financial services industry.

From November 1992 to January 2001, Mr. Huang successively served as a staff member and the deputy general member of the Industrial Securities Group's Nanping operations' division. From January 2001 to November 2001, Mr. Huang served as the general manager of the Industrial Securities Group's Chengdu operations' division. From November 2001 to November 2004, Mr. Huang successively served as the office manager, and then general manager of operations for the brokerage division of the Industrial Securities Group. From November 2004 to October 2007, Mr. Huang served concurrently as general manager of operations for the brokerage division of the Industrial Securities Group and the general manager of the Industrial Securities Group's Hangzhou operations' division. From October 2007 to July 2011, Mr. Huang served successively as, among others, office manager and general manager of the margin trading division of the Industrial Securities Group.

Since July 2011 and as at the Latest Practicable Date, Mr. Huang is a director and the chief executive officer of Industrial Securities (Hong Kong). As at the Latest Practicable Date, Mr. Huang is also a director of the following companies within the Group: CISI Asset Management, CISI Brokerage, CISI Capital, CISI Finance, CISI Futures, CISI Investment and CISI Wealth Management.

Mr. Huang obtained a master's degree in business administration from Nanyang Technological University, Singapore in May 2010.

**Mr. Wang Xiang (汪詳)**, aged 36, was appointed as an executive Director on 1 June 2016 and a deputy chief executive officer of the Company on 8 June 2016. Mr. Wang is primarily responsible for assisting the chief executive officer with the overall administration of business operations of our Group, and participating in the day-to-day management of our Group's businesses and operations. Mr. Wang has over 8 years of experience in the financial services industry.

Prior to joining our Group, Mr. Wang joined the Industrial Securities Group as a research analyst of its securities investment department in March 2008. From August 2010 to December 2011, Mr. Wang served as a manager of the securities investment department of Industrial Securities Group, and from January 2012 to May 2015, Mr. Wang served as the assistant chief executive officer of Industrial Securities (Hong Kong).

---

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

---

From May 2015 to 5 September 2016, Mr. Wang was the deputy chief executive officer of Industrial Securities (Hong Kong). As at the Latest Practicable Date, Mr. Wang is a director of CISI Asset Management.

Mr. Wang obtained a master's degree in accounting and financial management from the University of Hertfordshire, the United Kingdom, in March 2006.

**Ms. Zeng Yanxia (曾艷霞)**, aged 39, was appointed as an executive Director on 1 June 2016, and was further appointed as a deputy chief executive officer and the chief financial officer of the Company on 8 June 2016. Ms. Zeng is primarily responsible for assisting the chief executive officer with the overall management and supervision of the financial aspects of our Group's operations, and participating in the day-to-day management of our Group's businesses and operations. Ms. Zeng has approximately 10 years of experience in the financial services industry.

Prior to joining our Group, Ms. Zeng joined the accounting and finance department of the Industrial Securities Group in October 2006, following which she served successively as a manager of its internal division, assistant to the general manager, deputy director and deputy general manager. From August 2013 to March 2016, Ms. Zeng served as deputy general manager of the strategy development department of the Industrial Securities Group, and from March 2016 to 5 September 2016, Ms. Zeng was the deputy chief executive officer and CFO of Industrial Securities (Hong Kong).

Ms. Zeng graduated from the Zhongnan University of Finance and Economics (as it was then known as) with a bachelor's degree in certified public accountancy in June 1998. She further obtained a master's degree in finance from Wuhan University in June 2003, and a doctor of philosophy in accounting from Xiamen University in July 2006. She is also a senior accountant and CPA of the PRC.

### **Independent Non-executive Directors**

**Ms. Hong Ying (洪瑛)**, aged 65, was appointed as an independent non-executive Director on 27 July 2016. Ms. Hong has over 36 years of experience in the accounting industry. Ms. Hong is also qualified as a senior accountant in the PRC and a fellow certified public accountant of CPA Australia. As at the Latest Practicable Date, Ms. Hong is the director of, among others, Beijing Fuqin Accountants Limited, a firm engaged in enterprise audit and accounting and consulting services, which is based in the PRC.

Ms. Hong completed the Finance CEO programme jointly offered by the Cheung Kong Graduate School of Business, Columbia Business School and London Business School in January 2009, and obtained a certificate in Executive Management from the Golden Gate University, the United States in August 1993.



## DIRECTORS, SENIOR MANAGEMENT AND STAFF

Ms. Hong was a director of the companies named below. As confirmed by Ms. Hong, as far as she is aware, the dissolution of these companies has not resulted in any liability or obligation being imposed against her.

Name of company	Place of incorporation	Nature of business before dissolution	Date of dissolution	Means of dissolution	Reasons for dissolution
Fortune International (Hong Kong) Certified Public Accountants Limited 富勤國際(香港)會計師行有限公司	Hong Kong	None; inactive since incorporation	11 February 2011	Deregistration	Cessation of business
Fortune International Certified Public Accountants (Hong Kong) Limited	Hong Kong	None; inactive since incorporation	11 February 2011	Deregistration	Cessation of business

**Mr. Tian Li (田力)**, aged 47, was appointed as an independent non-executive Director on 27 July 2016. Mr. Tian has over 16 years of experience in the financial services industry. Mr. Tian is a director of Shanghai Tuhong Investment Management Company Limited (上海圖鴻投資管理有限公司), a company primarily engaged in strategic investment, asset management, and the provision of corporate advisory services, and he also currently serves as the independent board director of the Bank of De Yang and of China Industrial International Trust Limited, respectively. For the avoidance of doubt, China Industrial International Trust Limited is a subsidiary of Industrial Bank Co. Ltd (興業銀行股份有限公司), which like Industrial Securities, is partially owned by Fujian Provincial Department of Finance (福建省財政廳). Mr. Tian's previous experiences include employment with Bank of China International Limited as group executive director and head of financial institutions from January 2002 to October 2004.

Mr. Tian graduated with a bachelor's degree in engineering from the People's Liberation Army University of Science and Technology (previously known as the People's Liberation Army Institute of Engineering Corps), the PRC, in July 1990. He then obtained a master's degree in civil engineering from Cleveland State University, the United States, in August 1996, and a further master's degree in business administration from Duke University, the United States, in May 1999.



## DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Tian was a director of the company named below. As confirmed by Mr. Tian, as far as he is aware, the dissolution of this company has not resulted in any liability or obligation being imposed against him.

Name of company	Place of incorporation	Nature of business before dissolution	Date of dissolution	Means of dissolution	Reasons for dissolution
Harvest International (HK) Group Limited 禾成國際有限公司	Hong Kong	None; inactive since incorporation	14 March 2014	Striking Off	Inactive

**Mr. Qin Shuo (秦朔)**, aged 47, was appointed as an independent non-executive Director on 27 July 2016. Mr. Qin was the chief editor of China Business News (第一財經日報), from June 2004 to October 2015. As at the Latest Practicable Date, Mr. Qin is an independent director of Shenzhen Bosun Institute of Management Science Co. Ltd (深圳市博商管理科學研究院股份有限公司), a consulting company trading on the National Equities Exchange and Quotations system in the PRC.

Mr. Qin graduated with a bachelor's degree in journalism from Fudan University, the PRC in July 1990, a master's degree in public administration from California State University (Northridge), the United States, in June 2001 and further obtained his doctor of philosophy in business administration from Sun Yat-sen University, the PRC, in June 2009.

Save as disclosed above, (i) there are no other directorships held by our Directors in any listed company whose securities are listed on any stock exchange in Hong Kong or overseas, within the three years immediately preceding the date of this document; and (ii) there is no other information relating to the relationship of any of our Directors with other Directors and senior management officers that should be disclosed pursuant to Rule 17.50(2) or paragraph 41(1) of Appendix 1A of the GEM Listing Rules.

Each of the Directors confirms that with respect to him/her, save as disclosed in the paragraph headed "Disclosure of Interests" in Appendix IV to this document, (i) he/she does not have any interests in Shares within the meaning of Part XV of the SFO; and (ii) to the best of the knowledge, information and belief of our Directors having made all reasonable inquiries, there is no other matter with respect to the appointment of our Directors that needs to be brought to the attention of the Shareholders and there is no information relating to our Directors that is required to be disclosed pursuant to Rule 17.50(2)(h) to (v) of the GEM Listing Rules as of the Latest Practicable Date.

---

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

---

### SENIOR MANAGEMENT

The table below shows certain information in respect of our senior management:

Name	Age	Position	Date of joining the Group	Date of appointment as member of senior management	Responsibilities
Wang Han	38	Deputy chief executive officer of our Company	23 March 2016	23 March 2016	Overseeing research and institutional sales of our Group
Kwok Kei Chi	45	Deputy chief executive officer of CISI Brokerage	12 December 2011	12 December 2011	Supervising and overseeing the brokerage business of our Group
Wong Yung Pang	54	Deputy chief executive officer of CISI Brokerage	4 February 2015	4 February 2015	Supervising and overseeing the brokerage business of our Group
Li Zhisen	35	Head of our futures division	19 November 2012	19 November 2012	Supervising and overseeing the futures business of our Group
Liu Chung Kuang	46	Head of our asset management division	1 September 2015	1 September 2015	Supervising and overseeing the asset management business of our Group

---

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

---

Name	Age	Position	Date of joining the Group	Date of appointment as member of senior management	Responsibilities
Leung Kin Cheong, Laurent	46	Head of our investment banking division	3 October 2012	3 October 2012	Supervising and overseeing the investment banking business of our Group
Cho Ka Wai	48	Company secretary, head of compliance	28 July 2015	28 July 2015	Acting as company secretary of our Company, supervising and overseeing our Group's compliance matters
Miao Chih Chen	44	Chief operating officer of CISI Brokerage	1 June 2014	1 June 2014	Supervising, overseeing our brokerage operations

The biographies of our senior management are set out as follows:

**Mr. Wang Han (王涵)**, aged 38, is the deputy chief executive officer of the Company. He is primarily responsible for overseeing the research and institutional sales of our Group. Mr. Wang has over 7 years of experience in the financial services industry. Since June 2013 and as at the Latest Practicable Date, Mr. Wang is the deputy chief manager of research division of Industrial Securities and its chief macroeconomic analyst. Prior to joining the Industrial Securities Group and our Group, Mr. Wang accumulated experience in the financial services industry through his employment with CEBM Group, as an analyst, from May 2009.

Mr. Wang graduated with a bachelor's degree in modern applied physics from the University of Science and Technology of China, the PRC in July 2001, and a PhD in physics from Washington University in St. Louis, the United States, in December 2007.

---

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

---

**Mr. Kwok Kei Chi (郭基智)**, aged 45, is a deputy chief executive officer of CISI Brokerage. He is primarily responsible for the development and management of our brokerage business development. As at the Latest Practicable Date, Mr. Kwok is also a director of various subsidiaries of the Company including CISI Brokerage, CISI Futures, CISI Asset Management and CISI Finance, and a responsible officer of each of CISI Brokerage, CISI Futures and CISI Asset Management under the SFO. Mr. Kwok has over 20 years of experience in the financial services industry. Prior to joining our Group, Mr. Kwok accumulated extensive experience in securities industry in Hong Kong through, among others, employment with CASH Financial Services Group Limited and ISS Group Limited as a head of operations and chief operating officer from December 2005 to December 2011.

Mr. Kwok graduated with a bachelor's degree in accounting in June 1993 from the Dundee Institute of Technology, Scotland, in the United Kingdom, and a master's degree in finance in November 1995, from the University of Strathclyde, Scotland, in the United Kingdom. He is also a director of the Institute of Securities Dealers Limited and a fellow member of Hong Kong Securities and Investment Institute.

**Mr. Wong Yung Pang (王勇鵬)**, aged 54, is a deputy chief executive officer of CISI Brokerage. Mr. Wong is primarily responsible for supervising and overseeing our brokerage operations. Mr. Wong has over 13 years of experience in the financial industry. As at the Latest Practicable Date, he is also a director of CISI Brokerage. Prior to joining our Group, among others, Mr. Wong accumulated experience in the financial industry in Hong Kong through employment with among others, BOCOM International Holdings Company Limited as a managing director of the brokerage division of BOCOM International Securities Limited from February 2009 to November 2014.

Mr. Wong obtained a bachelor's degree in science from the University of Toronto, Canada, in June 1985.

Mr. Wong was a director of the company named below. As confirmed by Mr. Wong, as far as he is aware, the dissolution of this company has not resulted in any liability or obligation being imposed against him.

Name of company	Place of incorporation	Nature of business before dissolution	Date of dissolution	Means of dissolution	Reasons for dissolution
Ele Company Limited	Hong Kong	Fashion retail	27 July 2007	Deregistration	Cessation of business

**Mr. Li Zhi Sen (李志森)**, aged 35, is the head of our futures division. He is primarily responsible for the development and management of the business development of our futures services operations and is a director of CISI Finance and CISI Futures. Mr. Li has over 8 years of experience in the futures services industry. Prior to joining our Group, Mr. Li accumulated experience in the futures industry in Hong Kong through, among others, employment with China International Futures (Hong Kong) Company Limited as a managing director from February 2008 to November 2012.

---

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

---

Mr. Li graduated from Yang-En University, the PRC with a bachelor's degree in financial management in July 2003.

**Mr. Liu Chung Kuang (劉中光)**, aged 47, is the head of our asset management division. Mr. Liu is primarily responsible for heading the asset management business of our Group and is also a director of CISI Asset Management. Mr. Liu has over 10 years of experience in Hong Kong in leading financial institutions covering securities, banking, and asset management businesses. Prior to joining our Group, among other things, Mr. Liu accumulated experience in the financial industry in Hong Kong through employment with, among others, the World Gold Council as director of their Investment Far East division from August 2012 – August 2015, and with Mirae Asset Global Investments (Hong Kong) Limited, as director and head of its ETF Division from July 2011 – June 2012.

Mr. Liu obtained his bachelor of administration from the University of Ottawa in May 1992, Canada and a graduate certificate in financial engineering from Stanford University in June 2010.

**Dr. Leung Kin Cheong, Laurent (梁健昌)**, aged 46, is the head of our investment banking division. He is primarily responsible for supervising and overseeing the investment banking business of our Group and is also a director of CISI Capital. As at the Latest Practicable Date, Dr. Leung is also a director and managing director of CISI Capital. Dr. Leung has over 15 years of experience in the financial services industry. Prior to joining our Group, Dr. Leung's experiences in the financial services industry include, but are not limited to, employment with Guosen Securities (HK) Capital Company Limited as a managing director from August 2011 to August 2012, and with KGI Capital Asia Limited as a senior vice president in investment banking division from June 2002 to July 2011.

Dr. Leung graduated with a bachelor's degree in economics from the National Chengchi University, Taiwan in June 1994. He further obtained a master's of science degree in economics and finance from the University of Warwick, the United Kingdom in January 1998, and a doctor of philosophy in finance from the Shanghai University of Finance and Economics, the PRC in June 2011. He is also the honorary president of Shanghai University of Finance and Economics Hong Kong Alumni Association and a deputy chairman of the training committee of the Hong Kong Institute of Directors.

**Mr. Cho Ka Wai (曹家偉)**, aged 48, is the company secretary and head of compliance. Mr. Cho is primarily responsible for overseeing the legal compliance of the activities of the Group, including the compliance matters relating to the brokerage, investment banking, asset management, structured financing and proprietary transactions of the Group. Mr. Cho has over 15 years of experience in the financial industry. He is also a director of the following companies with the Group as at the Latest Practicable Date: CISI Asset Management, CISI Brokerage, CISI Capital, CISI Finance, CISI Futures, CISI Investment and CISI Wealth Management. Prior to joining our Group, Mr. Cho had accumulated experience in major financial houses in Hong Kong through, among others, employment with CCB International (Holdings) Limited as senior compliance manager from January 2007 to April 2008, and BOCOM International Holdings Company Limited as an executive director of compliance from April 2008 to August 2013.

---

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

---

Mr. Cho obtained a bachelor of arts in Accountancy from City University of Hong Kong in November 1992. Mr. Cho is member of ACCA and HKICPA.

**Mr. Miao Chih Chen (繆志誠)**, aged 44, is the chief operating officer of CISI Brokerage. He is primarily responsible for supervising and overseeing our brokerage operations and is also a director of CISI Brokerage. Mr. Miao has over 11 years of experience in the financial services industry. Prior to joining our Group, Mr. Miao's experiences in the financial services industry include, but are not limited to, employment with BOCOM International Holdings Company Limited as their head of operations from June 2007 to May 2014.

Mr. Miao obtained a bachelor of arts from York University in Canada. From 12 May 2010 and as at the Latest Practicable Date, Mr. Miao was a member of the Clearing Consultative Panel of the Stock Exchange.

None of the members of our senior management has held any directorship in any listed company whose securities are listed on any stock exchange in Hong Kong or overseas during the three years immediately preceding the date of this document.

### COMPANY SECRETARY

Please refer to the paragraph headed "Senior Management" above for a biography of Mr. Cho Ka Wai.

### COMPLIANCE OFFICER

Ms. Zeng Yanxia is the compliance officer of our Company. Please refer to the paragraph headed "Directors" above for a biography of Ms. Zeng Yanxia.

### REMUNERATION POLICY

The Directors and senior management of the Company receive compensation in the form of fees, salaries, contributions to pension schemes, other allowances, other benefits in kind and/or discretionary bonuses with reference to those paid by comparable companies, time commitment and performance of the Directors and senior management, as well as the performance of the Group.

The Group regularly reviews and determines the remuneration and compensation packages of the Directors and senior management by reference to, among other things, market level of remuneration and compensation paid by comparable companies, respective responsibilities of the Directors and senior management and performance of the Group.

Following the [REDACTED], the Remuneration Committee will review and determine the remuneration and compensation packages of the Directors with reference to their experience, responsibilities, workload and time devoted to the Group and performance of the Group.

---

## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

---

### **REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT**

For each of the two years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, the aggregate director's fee, salaries and allowances and retirement benefits scheme contribution, other benefits in kind and/or discretionary bonuses paid by us to Directors were approximately HK\$4,844,450, HK\$8,942,012 and HK\$2,150,277, respectively.

For each of the two years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, the aggregate salaries and allowances, other benefits in kind, discretionary bonuses and retirement benefits scheme contribution paid by us to the five highest paid individuals was approximately HK\$9,519,549, HK\$21,995,879 and HK\$5,235,281, respectively.

Save as disclosed above, no other emoluments have been paid, or are payable, by us to our Directors and the five highest paid individuals in respect of each of the two years ended 31 December 2014 and 2015 and the three months ended 31 March 2016, respectively.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary benefits or bonus or other fringe benefits) for the year ending 31 December 2016 will be approximately HK\$5,555,457.16.

During the Track Record Period, no remuneration was paid by us to, or received by, our Directors or the five highest paid individuals as an inducement to join or upon joining us or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period.

### **BOARD COMMITTEES**

#### **Audit Committee**

Our Audit Committee consists of 3 members, namely Ms. Hong Ying, Ms. Zhuang Yuanfang and Mr. Tian Li. Ms. Hong Ying is the chairlady of the Audit Committee. Written terms of reference for the Audit Committee have been adopted in accordance with paragraph C.3.3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules in compliance with Rule 5.28 of the GEM Listing Rules.

The primary duties of the Audit Committee are to review and supervise our financial reporting process, to nominate and monitor our external auditors, and to oversee the risk management and internal control procedures of our Company.

---

## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

---

### **Remuneration Committee**

Our Remuneration Committee consists of 3 members, namely Mr. Tian Li, Mr. Lan Rong, and Mr. Qin Shuo. Mr. Tian Li is the chairman of the Remuneration Committee. Written terms of reference for the Remuneration Committee were adopted in accordance with paragraph B.1.2 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules, in compliance with Rule 5.34 of the GEM Listing Rules.

The primary duties of the Remuneration Committee are to make recommendation to our Board on the overall remuneration policy and structure relating to all Directors and senior management of our Company, and to ensure that none of our Directors determine their own remuneration.

### **Nomination Committee**

Our Nomination Committee consists of 3 members, namely Mr. Lan Rong, Mr. Tian Li and Mr. Qin Shuo. Mr. Lan Rong is the chairman of the Nomination Committee. Written terms of reference for the Nomination Committee were adopted in accordance with paragraph A.5.2 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules.

The primary duties of the Nomination Committee are to review the structure, size and composition of our Board annually, to identify individuals suitably qualified to become members of our Board, to assess the independence of our independent non-executive Directors, and to make recommendations to our Board on relevant matters relating to appointments of Directors.

## **CORPORATE GOVERNANCE**

Our Company will comply with the Corporate Governance Code in Appendix 16 to the GEM Listing Rules.

Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code each financial year and comply with the “comply or explain” principle in our corporate governance report which will be included in our annual reports upon the [REDACTED].



---

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

---

[REDACTED]

In accordance with Rule 6A.19 of the GEM Listing Rules, our Company has appointed Haitong International Capital Limited as our [REDACTED], who will have access to all relevant records and information relating to the Group that it may reasonably require to properly perform its duties.

Pursuant to Rule 6A.23 of the GEM Listing Rules, our Company will consult with, and seek advice from, our [REDACTED] on a timely basis in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction under the GEM Listing Rules, is contemplated by the Group, including share issues and share repurchases;
- (c) where the Group propose to use the [REDACTED] of the [REDACTED] in a manner different from that detailed in this document or where the Group's business activities, developments or results of operations deviate from any forecast, estimate or other information in this document; and
- (d) where the Stock Exchange makes an inquiry of the Company under Rule 17.11 of the GEM Listing Rules.

The terms of our appointment of Haitong International Capital Limited as our [REDACTED] will commence on the [REDACTED], and will end on the date on which the Group complies with Rule 18.03 of the GEM Listing Rules in respect of the financial results for the second full financial year after the [REDACTED] or until the agreement in respect of such appointment is terminated, whichever is earlier.

## SUBSTANTIAL SHAREHOLDERS

As at the date of this document, the Company is owned as follows:

Name	Nature of Interest	No. of Shares held	Approximate percentage of shareholding
China Industrial Securities International Holdings	Beneficial owner	1,975,148,514	68.44%
Industrial Securities (Hong Kong) <sup>1</sup>	Interest of controlled corporation	1,975,148,514	68.44%
Industrial Securities <sup>2</sup>	Interest of controlled corporation	1,975,148,514	68.44%
Intelligence Creation International Limited <sup>3</sup>	Settlor of a trust	277,029,703	9.60%
Equity Trustee Limited <sup>4</sup>	Trustee	277,029,703	9.60%
ICV <sup>5</sup>	Beneficial owner	277,029,703	9.60%
Hao Kang Financial	Beneficial owner	198,019,801	6.86%
ApexTrade Holdings Limited	Interest in controlled corporation	198,019,801	6.86%
Chen Jiaquan <sup>6</sup>	Interest in controlled corporation	198,019,801	6.86%
Yang Zhiying <sup>7</sup>	Interest of spouse	198,019,801	6.86%
Dragon Power	Beneficial owner	158,415,841	5.49%
Li San Yim <sup>8</sup>	Interest in controlled corporation	158,415,841	5.49%
Ngai Ngan Ying <sup>8</sup>	Interest in controlled corporation	158,415,841	5.49%

Notes:

1. Industrial Securities (Hong Kong) holds the entire issued share capital of China Industrial Securities International Holdings. Therefore, Industrial Securities (Hong Kong) is deemed or taken to be interested in all our Shares held by China Industrial Securities International Holdings for the purposes of the SFO.
2. Industrial Securities holds the entire issued share capital of Industrial Securities (Hong Kong). Therefore, Industrial Securities is deemed or taken to be interested in all our Shares held by Industrial Securities (Hong Kong) for the purposes of the SFO.
3. Intelligence Creation International Limited is the settlor of the Intelligence Creation Trust.
4. Equity Trustee Limited holds the entire issued share capital of ICV as the trustee of the Intelligence Creation Trust.
5. ICV holds the ES Shares which is the trust assets of the Intelligence Creation Trust. For further details of the Intelligence Creation Trust, please refer to the paragraph headed “History, Reorganisation and Group Structure – Employee Share Participation Scheme”.
6. Chen Jiaquan holds 70% of the total issued share capital of ApexTrade Holdings Limited and is the sole director of Hao Kang Financial and therefore is deemed or taken to be interested in all the Shares held by ApexTrade Holdings Limited and Hao Kang Financial for the purpose of the SFO.

---

## SUBSTANTIAL SHAREHOLDERS

---

7. Yang Zhiying is the spouse of Chen Jiaquan. Under the SFO, Yang Zhiying is deemed, or is taken to be, interested in all the Shares in which Chen Jiaquan is interested in.
8. Each of Li San Yim and Ngai Ngan Ying holds 50% of the issued share capital of Dragon Power respectively.

So far as our Directors are aware, immediately following the completion of the [REDACTED] and the [REDACTED] (assuming that the [REDACTED] is not exercised), the following persons will have interests or short positions in Shares or underlying Shares which would be required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Company:

[REDACTED]

---

## SUBSTANTIAL SHAREHOLDERS

---

*Notes:*

1. Industrial Securities (Hong Kong) holds the entire issued share capital of China Industrial Securities International Holdings. Therefore, Industrial Securities (Hong Kong) is deemed or taken to be interested in all our Shares held by China Industrial Securities International Holdings for the purposes of the SFO.
2. Industrial Securities holds the entire issued share capital of Industrial Securities (Hong Kong). Therefore, Industrial Securities is deemed or taken to be interested in all our Shares held by Industrial Securities (Hong Kong) for the purposes of the SFO.
3. Intelligence Creation International Limited is the settlor of the Intelligence Creation Trust.
4. Equity Trustee Limited holds the entire issued share capital of ICV as the trustee of the Intelligence Creation Trust.
5. ICV holds the ES Shares which is the trust assets of the Intelligence Creation Trust. For further details of the Intelligence Creation Trust, please refer to the paragraph headed "History, Reorganisation and Group Structure – Employee Share Participation Scheme".
6. Chen Jiaquan holds 70% of the total issued share capital of ApexTrade Holdings Limited and is the sole director of Hao Kang Financial and therefore is deemed or taken to be interested in all the Shares held by ApexTrade Holdings Limited and Hao Kang Financial for the purpose of the SFO.
7. Yang Zhiying is the spouse of Chen Jiaquan. Under the SFO, Yang Zhiying is deemed, or is taken to be, interested in all the Shares in which Chen Jiaquan is interested in.
8. Upon the completion of the [REDACTED] entered into by Harvest Capital Management Co., Ltd becoming unconditional, Harvest Capital Management Co., Ltd will hold [REDACTED], which is calculated based on the middle price of the [REDACTED] assuming there is no re-allocation between the [REDACTED] and the [REDACTED].

Except as disclosed in this document, our Directors are not aware of any person who will, immediately following the completion of the [REDACTED] and the [REDACTED] (assuming that the [REDACTED] is not exercised), have interests or short positions in any of our Shares or underlying Shares which would be required to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

**[REDACTED]**

---

**[REDACTED]**

**[REDACTED]**

---

**[REDACTED]**

**[REDACTED]**

---

**[REDACTED]**

**[REDACTED]**

---

**[REDACTED]**



---

## SHARE CAPITAL

---

### SHARE CAPITAL

The following is a description of our authorised share capital and our share capital in issue and to be issued as fully paid or credited as fully paid immediately before and after the completion of the [REDACTED] and the [REDACTED] (without taking into account the exercise of the [REDACTED]):

(HK\$)

#### *Authorised share capital*

<u>20,000,000,000</u>	Shares of HK\$0.1 each	<u>2,000,000,000</u>
-----------------------	------------------------	----------------------

*Issued and to be issued, fully paid or credited as fully paid upon completion of the [REDACTED] and the [REDACTED]*

2,885,841,579	Shares in issue as at the date of this document	288,584,157.9
[REDACTED]	Shares to be issued pursuant to the [REDACTED]	[REDACTED]
<u>[REDACTED]</u>	Shares to be issued pursuant to the [REDACTED]	<u>[REDACTED]</u>
<u>[REDACTED]</u>	Total	<u>[REDACTED]</u>

According to Rule 11.23(7) of the GEM Listing Rules, at the time of the [REDACTED] and at all times thereafter, we must maintain the minimum prescribed percentage of 25% of our issued share capital in the hands of the public.

### ASSUMPTIONS

The above table assumes that the [REDACTED] becomes unconditional and the issue of Shares pursuant to the [REDACTED] and the [REDACTED] are made, but takes no account of any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] or any Shares which may be issued or repurchased by us pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

---

## SHARE CAPITAL

---

### RANKING

The [REDACTED], including the Shares issuable pursuant to the [REDACTED], will rank pari passu in all respects with all other Shares in issue as mentioned in this document, and in particular, will rank in full for all dividends and other distributions hereafter declared, paid or made on the Shares after the date of this document.

### GENERAL MANDATE TO ISSUE SHARES

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value not exceeding the sum of:

- (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the [REDACTED] and the [REDACTED]; and
- (ii) the aggregate nominal amount of the share capital of our Company repurchased by us (if any) pursuant to the general mandate to repurchase Shares as described below.

This mandate will expire at the earliest of:

- (i) the conclusion of our next annual general meeting;
- (ii) the expiration of the period within which our next annual general meeting is required by the Memorandum of Association and the Articles of Association or any applicable laws to be held; and
- (iii) the day on which such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting.

Particulars of this general mandate to allot, issue and deal with Shares are set forth under the section headed "Further information about our Company – Written resolutions of our Shareholders passed on 27 July 2016" in Appendix IV in this document.

---

## **SHARE CAPITAL**

---

### **GENERAL MANDATE TO REPURCHASE SHARES**

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal amount of not more than 10% of the total nominal amount of the share capital of our Company in issue immediately following the completion of the [REDACTED] and the [REDACTED] (excluding any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED]).

This mandate relates only to repurchases made on the Stock Exchange or any other stock exchange on which the Shares may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, and which are made in accordance with the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the paragraph headed "Further information about our Company – Repurchase of our Shares by our Company" in Appendix IV in this document.

This mandate will expire at the earliest of:

- (i) the conclusion of our next annual general meeting;
- (ii) the expiration of the period within which our next annual general meeting is required by the Memorandum of Association and the Articles of Association or any applicable laws to be held; and
- (iii) the day on which such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting.

Particulars of this general mandate to repurchase Shares are set forth under the section headed "Further information about our Company – Written resolutions of our Shareholders passed on 27 July 2016" in Appendix IV in this document.

### **SHARE OPTION SCHEME**

The Company has not adopted any share option scheme.

## FINANCIAL INFORMATION

*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.

---

## FINANCIAL INFORMATION

---

- **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

---

## **FINANCIAL INFORMATION**

---

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.

---

## **FINANCIAL INFORMATION**

---

### **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.

## FINANCIAL INFORMATION

### 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 HK\$	2015 HK\$	2015 HK\$ <i>(unaudited)</i>	2016 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 [REDACTED] expenses	(37,460,628)	(85,253,840)	(18,607,532)	(21,658,267)
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	<u>18,771,336</u>	<u>50,504,033</u>	<u>4,933,478</u>	<u>5,796,474</u>

### 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:

Segment	For the year ended 31 December				For the three months ended 31 March			
	2014 HK\$	% of revenue	2015 HK\$	% of revenue	2015 HK\$ <i>(unaudited)</i>	% of revenue	2016 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	-	-
<b>Total:</b>	<u>120,001,758</u>	<u>100.0</u>	<u>364,324,168</u>	<u>100.0</u>	<u>53,815,010</u>	<u>100.0</u>	<u>79,766,999</u>	<u>100.0</u>





---

## FINANCIAL INFORMATION

---

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

## FINANCIAL INFORMATION

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\$	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
<b>Total:</b>	<b>9,985,060</b>	<b>127,030,188</b>	<b>1,172.2</b>	<b>9,725,528</b>	<b>52,932,543</b>	<b>444.3</b>

### *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.

---

## FINANCIAL INFORMATION

---

### *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.

## FINANCIAL INFORMATION

### *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\$	HK\$	%
				<i>(unaudited)</i>		
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)
<b>Total:</b>	<u>20,120,146</u>	<u>25,615,792</u>	27.3	<u>1,572,677</u>	<u>1,420,000</u>	(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.

## FINANCIAL INFORMATION

### *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\$	%
				<i>(unaudited)</i>		
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
<b>Total:</b>	<u>1,177,536</u>	<u>7,068,319</u>	500.3	<u>939,673</u>	<u>1,498,841</u>	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.

## FINANCIAL INFORMATION

### *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			For the three months ended		
	31 December			31 March		
	2014	2015	Change	2015	2016	Change
	HK\$	HK\$	%	HK\$	HK\$	%
	<i>(unaudited)</i>					
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)
<b>Total:</b>	<u>43,426,977</u>	<u>29,445,473</u>	(32.2)	<u>21,039,498</u>	<u>–</u>	(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



## FINANCIAL INFORMATION

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\$	%
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
<b>Total:</b>	<u>4,365,712</u>	<u>3,865,371</u>	(11.5)	<u>644,239</u>	<u>957,221</u>	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.



## FINANCIAL INFORMATION

### 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\$	HK\$	%
				<i>(unaudited)</i>		
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	<u>1,845,208</u>	<u>17,007,920</u>	821.7	<u>677,090</u>	<u>2,228,463</u>	229.1
<b>Total:</b>	<u><u>12,976,346</u></u>	<u><u>79,996,504</u></u>	516.5	<u><u>6,900,500</u></u>	<u><u>12,586,570</u></u>	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.

---

## FINANCIAL INFORMATION

---

### *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.

## FINANCIAL INFORMATION

### 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\$	%
				<i>(unaudited)</i>		
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 <i>(note)</i>	5,624,574	7,701,902	36.9	3,238,487	2,671,929	(17.5)
	<u>37,460,628</u>	<u>85,253,840</u>	127.6	<u>18,607,532</u>	<u>21,658,267</u>	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.

## FINANCIAL INFORMATION

### 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		For the three months ended	
	31 December		31 March	
	2014	2015	2015	2016
	HK\$	HK\$	HK\$	HK\$
	<i>(unaudited)</i>			
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
	<u>2,248,537</u>	<u>(7,419,313)</u>	<u>3,025,178</u>	<u>2,258,976</u>

### 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

---

## FINANCIAL INFORMATION

---

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.

---

## FINANCIAL INFORMATION

---

### *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.

## FINANCIAL INFORMATION

### Business segment margins

	For the year ended		For the three months	
	31 December		ended 31 March	
	2014	2015	2015	2016
	%	%	%	%
	<i>(unaudited)</i>			
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.



---

## FINANCIAL INFORMATION

---

### *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.



## FINANCIAL INFORMATION

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

	For the year ended		For the three months ended	
	31 December		31 March	
	2014	2015	2015	2016
	HK\$	HK\$	HK\$	HK\$
			<i>(unaudited)</i>	
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	<u>1,162,138,290</u>	<u>1,383,007,928</u>	<u>1,817,679,455</u>	<u>(39,765,821)</u>
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	<u>118,348,564</u>	<u>203,186,709</u>	<u>203,186,709</u>	<u>238,022,069</u>
Cash and cash equivalents at end of year/period	<u><u>203,186,709</u></u>	<u><u>238,022,069</u></u>	<u><u>231,931,695</u></u>	<u><u>235,447,271</u></u>

### *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

---

## FINANCIAL INFORMATION

---

ratios<sup>(note)</sup> 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.

---

## FINANCIAL INFORMATION

---

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.

## FINANCIAL INFORMATION

### 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 2016	As at 31 July 2016
	2014	2015	2016	2016
	HK\$	HK\$	HK\$	HK\$
				<i>(unaudited)</i>
<b>Current Assets</b>				
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	<u>203,186,709</u>	<u>238,022,069</u>	<u>235,447,271</u>	<u>759,538,661</u>
<b>Total current assets</b>	<b><u>2,103,077,870</u></b>	<b><u>4,886,945,812</u></b>	<b><u>5,367,841,701</u></b>	<b><u>6,552,132,967</u></b>
<b>Current Liabilities</b>				
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	<u>986,500,000</u>	<u>2,416,068,466</u>	<u>2,389,454,855</u>	<u>3,538,575,478</u>
<b>Total current liabilities</b>	<b><u>1,715,724,267</u></b>	<b><u>4,416,693,691</u></b>	<b><u>4,888,571,449</u></b>	<b><u>5,989,116,712</u></b>
<b>Net Current assets</b>	<b><u>387,353,603</u></b>	<b><u>470,252,121</u></b>	<b><u>479,270,252</u></b>	<b><u>563,016,255</u></b>

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.

---

## **FINANCIAL INFORMATION**

---

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.

## FINANCIAL INFORMATION

### 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 2014 HK\$	2015 HK\$	As at 31 March 2016 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 ( <i>Note</i> )	–	–	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.

## FINANCIAL INFORMATION

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

	<b>As at 31 December</b>		<b>As at 31 March</b>
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
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
	<b>652,010,795</b>	<b>2,683,432,603</b>	<b>2,870,780,337</b>

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.

## FINANCIAL INFORMATION

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
	<i>(HK\$ in millions, except for ratio)</i>		
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 (%) <i>(Note)</i>	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.



---

## FINANCIAL INFORMATION

---

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.

## FINANCIAL INFORMATION

### 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.

---

## FINANCIAL INFORMATION

---

### 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.

## FINANCIAL INFORMATION

### 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
	2014	2015	31 March
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
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.

---

## FINANCIAL INFORMATION

---

### *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]".

## FINANCIAL INFORMATION

### 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\$
	<i>(unaudited)</i>			
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.

---

## FINANCIAL INFORMATION

---

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.



## FINANCIAL INFORMATION

### 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	<u>31,584,770</u>	<u>11,346,632</u>	<u>7,315,680</u>
	<u>49,340,516</u>	<u>32,186,165</u>	<u>30,566,777</u>

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	<u>1,779,485</u>	<u>850,962</u>	<u>10,040</u>
	<u>13,971,988</u>	<u>4,949,495</u>	<u>89,570</u>

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.



## FINANCIAL INFORMATION

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:

	<b>For the year ended</b>		<b>For the three</b>
	<b>31 December</b>		<b>months ended</b>
	<b>2014</b>	<b>2015</b>	<b>31 March</b>
			<b>2016<sup>(8)</sup></b>
Net profit margin <sup>(1)</sup>	15.6%	13.9%	7.3%
Return on equity <sup>(2)</sup>	4.5%	10.2%	4.6%
Return on total assets <sup>(3)</sup>	0.9%	1.0%	0.4%
		<b>As at</b>	<b>As at</b>
		<b>31 December</b>	<b>31 March</b>
		<b>2014</b>	<b>2015</b>
			<b>2016</b>
Current ratio <sup>(4)</sup>	1.2	1.1	1.1
Quick ratio <sup>(5)</sup>	1.2	1.1	1.1
Gearing ratio <sup>(6)</sup>	234.5%	485.9%	474.0%
Net debt to equity ratio <sup>(7)</sup>	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%.

---

## FINANCIAL INFORMATION

---

- (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.

---

## FINANCIAL INFORMATION

---

### 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 current 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.

---

## FINANCIAL INFORMATION

---

### 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

## **FINANCIAL INFORMATION**

---

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.

---

## FUTURE PLANS AND USE OF [REDACTED]

---

### FUTURE PLANS

Please see the section headed “Business – Business Strategies” of this document for a detailed description of our future plans.

### REASONS FOR THE [REDACTED]

Our Directors believe that the [REDACTED] will enhance our profile, strengthen our financial position and competitiveness, and provide us with additional capital to implement our future plans set out in the paragraph headed “Implementation plans” below.

### USE OF [REDACTED]

The estimated [REDACTED] of the [REDACTED] which we will receive, assuming an [REDACTED] is fixed at low-end, mid-point and high-end of the [REDACTED] stated in this document with and without exercising the [REDACTED] after deduction of [REDACTED] and [REDACTED] and estimated expenses payable by us in connection with the [REDACTED] are set out in the table below.

[REDACTED]

Assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the indicative [REDACTED]), subject to prevailing market conditions, we intend to use the [REDACTED] of the [REDACTED] for the following purposes:

- approximately 40%, or HK\$[REDACTED], for expansion of our loans and financing business. To achieve this purpose, we intend to apply 36% of the [REDACTED] of the [REDACTED] for the expansion of margin financing business and 4% of the [REDACTED] of the [REDACTED] for the expansion of money lending business, and we will expand our client base and capture the increasing demand on financing in the capital market driven by Shanghai-Hong Kong Stock Connect and the proposed Shenzhen-Hong Kong Stock Connect with our enhanced capital strength;

---

## FUTURE PLANS AND USE OF [REDACTED]

---

- approximately 20%, or HK\$[REDACTED], for development of our proprietary trading business, primarily for investment in fixed-income assets. To achieve this purpose, we plan to increase the scale of our proprietary trading in accordance with our investment strategies and assessments, identify suitable investment opportunities to increase returns while ensuring principal protection, and equip our proprietary trading department with high-calibre investment personnel, upgraded trading system and office equipment to cope with the growth of our proprietary trading business;
- approximately 10%, or HK\$[REDACTED], for development of our new capital-based intermediary business. To achieve this purpose, we plan to establish a market-making team which will actively offer market making services, including but not limited to market making for stocks and bonds, derivatives, foreign exchange and commodity transactions, financing related to mergers, acquisitions and reorganisations, and private equity investments;
- approximately 8%, representing HK\$[REDACTED], for development of our asset management business. To achieve this purpose, we will strengthen our asset management capability, including but not limited to hiring experienced personnel, expanding our investment channels in the capital market and seeking for cooperation opportunities to explore the global investment platform. We will also further enhance our IT and risk management functions to support our trading activities. Our asset management team will continue to study, develop and innovate financial products tailored to the varying financing needs of our clients;
- approximately 8%, or HK\$[REDACTED], for development of our investment banking business. To achieve our purpose, we will strengthen our investment banking capability to capture any business opportunities for corporate finance, including but not limited to hiring experienced personnel to cover both sponsorship work and merger and acquisitions and increasing capital support for our fund raising services. The increased capital bases would allow us to expand our underwriting commitment capability as well as providing funds for our marketing and promotion to further enhance our brand image;
- approximately 4%, or HK\$[REDACTED], for development of our institutional sales capabilities, including hiring experienced sales personnel; and
- the remaining amount, or approximately 10%, representing HK\$[REDACTED], will be used to provide funding for our working capital and other general corporate purposes.

---

## FUTURE PLANS AND USE OF [REDACTED]

---

If the final [REDACTED] is set at the high end or the low end point of the indicative [REDACTED] range, the [REDACTED] of the [REDACTED] will increase or decrease by approximately HK\$[REDACTED], respectively, assuming that the [REDACTED] is not exercised. To the extent our [REDACTED] are either more or less than expected, we will adjust our allocation of the remaining [REDACTED] for the purposes described above on a pro rata basis. In the event that the [REDACTED] is exercised in full and based on the mid-point of the indicative [REDACTED] range, we estimate that we will receive additional [REDACTED] from the issue of additional new Shares of approximately HK\$[REDACTED], deducting [REDACTED] and estimated expenses payable by us. The additional proceeds received from the exercise of the [REDACTED] will be applied pro rata to the abovementioned purposes.

To the extent that the [REDACTED] are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the [REDACTED] into short-term demand deposits and/or money market instruments. We will make an appropriate announcement if there is any change to the above proposed use of [REDACTED] or if any amount of the [REDACTED] will be used for general corporate purpose.

### IMPLEMENTATION PLANS

The implementation plans for each of the six-month periods until 31 December 2018 for carrying out our business strategies are set out below, assuming the [REDACTED] is fixed at mid-point of the [REDACTED] without exercising the [REDACTED]. The following implementation plans are formulated on the bases and assumptions set out in the sub-paragraph headed "Bases and key assumptions" below in this paragraph and are subject to uncertainties, variables and unexpected factors. There is no assurance that the implementation plans will materialise in accordance with the timetable below or that our business objectives will be accomplished at all.



## FUTURE PLANS AND USE OF [REDACTED]

	From the [REDACTED] to 31 December 2016 HK\$ million	For the six months ending 30 June 2017 HK\$ million	For the six months ending 31 December 2017 HK\$ million	For the six months ending 30 June 2018 HK\$ million	For the six months ending 31 December 2018 HK\$ million	Total HK\$ million
Expansion of our loans and financing business						
Development of our proprietary trading business						
Development of our capital-based intermediary business						
Development of our asset management business						
Development of our investment banking business						
Development of our institutional sales capabilities						
Working capital and other general corporate purposes						
<b>Total</b>						

[REDACTED]

### Bases and key assumptions:

The implementation plans are based on the following bases and key assumptions:

- there will be no material changes in the existing applicable laws, policies or industry or regulatory treatment or in the political, fiscal, foreign trade or economic conditions in Hong Kong, the PRC and other places in which our Group operates or intends to operate;
- there will be no significant changes in the interest rates or the currency exchange rates from those currently prevailing;
- there will be no material changes in the bases or rates of taxation applicable to our Group;
- the [REDACTED] will be completed in accordance with and as described in the section headed “Structure of the [REDACTED]”;
- our Group will not be materially affected by the risk factors as set out under the section headed “Risk Factors”; and
- our Group will be able to continue our operation in substantially the same way as it has been operating and there will be no disasters, natural, political or otherwise, which would materially disrupt our business or the implementation of our development plans.

---

## **FUTURE PLANS AND USE OF [REDACTED]**

---

### **[REDACTED] ARE FULLY UNDERWRITTEN**

This document is published solely in connection with the [REDACTED], which is sponsored by the Joint Sponsors and managed by the [REDACTED] and to be fully underwritten by the [REDACTED] (subject to the terms and conditions of the [REDACTED]). For further information about the [REDACTED] and the [REDACTED], see “[REDACTED]”.

## **UNDERWRITING**

---

**HONG KONG UNDERWRITERS**

**[REDACTED]**

## UNDERWRITING

---

### *Grounds for termination*

[REDACTED]

## **UNDERWRITING**

---

**[REDACTED]**

## **UNDERWRITING**

---

**[REDACTED]**

## **UNDERWRITING**

---

**[REDACTED]**

## **UNDERWRITING**

---

**[REDACTED]**

**Undertakings given to the Stock Exchange pursuant to the GEM Listing Rules**

**[REDACTED]**



## **UNDERWRITING**

---

**[REDACTED]**

## **UNDERWRITING**

---

**[REDACTED]**

## **UNDERWRITING**

---

**[REDACTED]**

## **UNDERWRITING**

---

**[REDACTED]**

---

## UNDERWRITING

---

### The Joint Sponsors' Independence

China Industrial Securities International Capital Limited, being one of the Joint Sponsors, is one of our subsidiaries. It is not an independent sponsor according to the independence criteria applicable to sponsor set out in Rule 6A.07 of the GEM Listing Rules.

Haitong International Capital Limited, being one of the Joint Sponsors, satisfies the independence criteria applicable to sponsor set out in Rule 6A.07 of the GEM Listing Rules.

[REDACTED]

### Total Commission and Expenses

We will pay the [REDACTED] (for themselves and on behalf of the other [REDACTED]) an [REDACTED] commission of [REDACTED] of the aggregate [REDACTED] of the [REDACTED] initially offered under the [REDACTED] (excluding any [REDACTED] reallocated to the [REDACTED] and any [REDACTED] reallocated to the [REDACTED]), out of which the [REDACTED] will pay all [REDACTED] commission, if any. For unsubscribed [REDACTED] reallocated to the [REDACTED], we will pay an [REDACTED] commission at the rate applicable to the [REDACTED] and such commission will be paid to the [REDACTED] and the relevant [REDACTED], but not the [REDACTED].

Assuming the [REDACTED] is not exercised and based on an [REDACTED] of HK\$[REDACTED] (being the mid-point of the stated range of the [REDACTED] between HK\$[REDACTED] and HK\$[REDACTED]), the aggregate commissions and estimated expenses, together with the Stock Exchange listing fee, legal and other professional fees, printing and other fees and expenses relating to the [REDACTED], are estimated to amount in aggregate to HK\$[REDACTED] in total and are payable by us.

## **UNDERWRITING**

---

**[REDACTED]**

**STRUCTURE OF THE [REDACTED]**

---

**[REDACTED]**

**STRUCTURE OF THE [REDACTED]**

---

[REDACTED]



**STRUCTURE OF THE [REDACTED]**

---

**[REDACTED]**

**STRUCTURE OF THE [REDACTED]**

---

**[REDACTED]**

**STRUCTURE OF THE [REDACTED]**

---

[REDACTED]

**STRUCTURE OF THE [REDACTED]**

---

**[REDACTED]**

**STRUCTURE OF THE [REDACTED]**

---

**[REDACTED]**

**STRUCTURE OF THE [REDACTED]**

---

**[REDACTED]**

**STRUCTURE OF THE [REDACTED]**

---

[REDACTED]

**STRUCTURE OF THE [REDACTED]**

---

[REDACTED]



## **HOW TO APPLY FOR [REDACTED]**

---

**[REDACTED]**

## **HOW TO APPLY FOR [REDACTED]**

---

**[REDACTED]**

## **HOW TO APPLY FOR [REDACTED]**

---

**[REDACTED]**

## **HOW TO APPLY FOR [REDACTED]**

---

**[REDACTED]**

## **HOW TO APPLY FOR [REDACTED]**

---

**[REDACTED]**

## **HOW TO APPLY FOR [REDACTED]**

---

**[REDACTED]**

## **HOW TO APPLY FOR [REDACTED]**

---

**[REDACTED]**

## **HOW TO APPLY FOR [REDACTED]**

---

**[REDACTED]**



## **HOW TO APPLY FOR [REDACTED]**

---

**[REDACTED]**

## **HOW TO APPLY FOR [REDACTED]**

---

**[REDACTED]**

## **HOW TO APPLY FOR [REDACTED]**

---

**[REDACTED]**

## **HOW TO APPLY FOR [REDACTED]**

---

**[REDACTED]**

## **HOW TO APPLY FOR [REDACTED]**

---

**[REDACTED]**

## **HOW TO APPLY FOR [REDACTED]**

---

**[REDACTED]**

## **HOW TO APPLY FOR [REDACTED]**

---

**[REDACTED]**

## **HOW TO APPLY FOR [REDACTED]**

---

**[REDACTED]**



## **HOW TO APPLY FOR [REDACTED]**

---

**[REDACTED]**

## **HOW TO APPLY FOR [REDACTED]**

---

**[REDACTED]**

## **HOW TO APPLY FOR [REDACTED]**

---

**[REDACTED]**

## **HOW TO APPLY FOR [REDACTED]**

---

**[REDACTED]**

## **HOW TO APPLY FOR [REDACTED]**

---

**[REDACTED]**

## **HOW TO APPLY FOR [REDACTED]**

---

**[REDACTED]**

## **HOW TO APPLY FOR [REDACTED]**

---

**[REDACTED]**

APPENDIX I

ACCOUNTANTS' REPORT



德勤·關黃陳方會計師行  
香港金鐘道88號  
太古廣場一座35樓

Deloitte Touche Tohmatsu  
35/F, One Pacific Place  
88 Queensway  
Hong Kong

30 September 2016

The Directors

China Industrial Securities International Financial Group Limited

China Industrial Securities International Capital Limited

Haitong International Capital Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to China Industrial Securities International Financial Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the two years ended 31 December 2015 and the three months ended 31 March 2016 (the "Relevant Periods") for inclusion in the document of the Company dated 30 September 2016 (the "Document") in connection with the proposed [REDACTED] of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands on 21 July 2015. Pursuant to a group reorganisation, as more fully explained in the section headed "History, Reorganisation and Group structure – Reorganisation" in the Document (the "Group Reorganisation"), the Company has become the holding company of the subsidiaries now comprising the Group since 18 December 2015.

The Company and its subsidiaries have adopted 31 December as their financial year end date.

The particulars of the Company's subsidiaries and consolidated investment funds as at the date of this report are as follows:

Name of subsidiary	Place and date of incorporation	Place of operation	Issued and fully paid up share capital	Equity attributable to the Group			Principal activities	
				At 31 December 2014	At 31 March 2015	At the date of the report 2016		
				%	%	%	%	
<i>Directly owned</i>								
China Industrial Securities International Brokerage Limited (Formerly known as Industrial Securities (Hong Kong) Brokerage Limited) ("CISI Brokerage")	Hong Kong 20 July 2011	Hong Kong	HK\$1,800,000,000	100	100	100	100	Securities dealing and broking and securities margin financing



APPENDIX I

ACCOUNTANTS' REPORT

Name of subsidiary	Place and date of incorporation	Place of operation	Issued and fully paid up share capital	Equity attributable to the Group			Principal activities	
				At 31 December 2014 %	At 31 March 2015 %	At 31 March 2016 %		
China Industrial Securities International Futures Limited (Formerly known as Industrial Securities (Hong Kong) Futures Limited) ("CISI Futures")	Hong Kong 18 January 2012	Hong Kong	HK\$50,000,000	100	100	100	100	Futures and options contracts broking
China Industrial Securities International Capital Limited (Formerly known as Industrial Securities (Hong Kong) Capital Limited) ("CISI Capital")	Hong Kong 16 August 2012	Hong Kong	HK\$20,000,000	100	100	100	100	Advising on corporate finance services
China Industrial Securities International Asset Management Limited (Formerly known as Industrial Securities (Hong Kong) Asset Management Limited) ("CISI Asset Management")	Hong Kong 31 October 2011	Hong Kong	HK\$20,000,000	100	100	100	100	Advising on securities and asset management services
China Industrial Securities International Finance Limited (Formerly known as Industrial Securities (Hong Kong) Finance Limited) ("CISI Finance")	Hong Kong 28 October 2013	Hong Kong	HK\$210,000	100	100	100	100	Money lending
China Industrial Securities International Investment Limited (Formerly known as Industrial Securities (Hong Kong) Investment Limited) ("CISI Investment")	Hong Kong 29 May 2014	Hong Kong	HK\$20,000,000	100	100	100	100	Inactive
China Industrial Securities International Wealth Management Limited (Formerly known as Industrial Securities (Hong Kong) Wealth Management Limited) ("CISI Wealth Management")	Hong Kong 21 April 2015	Hong Kong	HK\$1,000,000	N/A	100	100	100	Wealth management services
<i>Indirectly owned</i> CISI Investment Limited	British Virgin Islands 11 May 2016	Hong Kong	US\$2,500,000	N/A	N/A	N/A	100	Investment trading

## APPENDIX I

## ACCOUNTANTS' REPORT

Name of investment fund	Place and date of incorporation	Place of operation	Class of share	Registered and paid up capital			Effective interest holding			At the date of the report	Principal activities
				At 31 December 2014	At 31 March 2015	At 31 March 2016	At 31 December 2014	At 31 March 2015	At 31 March 2016		
<i>Directly owned</i>											
IS China Strategy Balanced Fund ("ISSBF")	Cayman Islands 7 August 2012	Hong Kong	Participating Management	HK\$5,000,000 HK\$100	N/A HK\$100	N/A HK\$100	100 100	N/A 100	N/A 100	N/A 100	Investment trading
<i>(Note a)</i>											
<i>Indirectly owned</i>											
CIS Investment Fund Segregated Portfolio Company – IS RMB Fixed Income Fund Segregated Portfolio ("ISRIF")	Cayman Islands 14 November 2013	Hong Kong	Participating Management	RMB466,926,070 US\$100	N/A N/A	N/A N/A	100 100	N/A N/A	N/A N/A	N/A N/A	Investment trading
<i>(Note b)</i>											
CIS Investment Fund Segregated Portfolio Company – CIS Dynamic Growth Fund Segregated Portfolio ("CISDF")	Cayman Islands 17 June 2015	Hong Kong	Participating Management	- HK\$1,000,000 US\$100	N/A US\$100	N/A US\$100	100 100	N/A 100	N/A 100	N/A 100	Investment trading
<i>(Note c)</i>											

### Notes:

- (a) CISI Asset Management, a wholly owned subsidiary of the Group, has been appointed as an investment manager and holds all management shares of ISSBF. The Group held all issued participating shares of ISSBF since its incorporation up to 30 April 2015. The directors of the Company are of the opinion that ISSBF was regarded as a consolidated structured entity of the Company as CISI Asset Management was able to exercise control over its operations and has significant variable financial interest since its incorporation up to 30 April 2015. On 30 April 2015, a company owned by third-party investors subscribed new participating shares issued by ISSBF which constituted 98% of the total participating shares of ISSBF at the net asset value per each share, as a result, the Group's equity interest in ISSBF was reduced from 100% to 2% and lost control of ISSBF. On 20 May 2015, the Group redeemed all its participating shares of ISSBF which represented 2% of the total participating shares of ISSBF. CISI Asset Management still retains all management shares of ISSBF after the redemption of all participating shares. Since 20 May 2015, the Group determines that ISSBF is an unconsolidated structured entity as the Group no longer has significant variable financial interest after the redemption of all participating shares.
- (b) CISI Asset Management, a wholly owned subsidiary of the Group, was appointed as an investment manager and held all management shares of ISRIF. The Group held all issued participating shares of ISRIF since its incorporation up to 2 November 2015. The directors of the Company are of the opinion that ISRIF was regarded as a consolidated structured entity of the Company as CISI Asset Management was able to exercise control over its operations and has significant variable financial interest since its incorporation up to 2 November 2015. On 2 November 2015, the Group redeemed all participating shares of ISRIF, and ISRIF was then terminated on 12 November 2015.
- (c) CISI Asset Management, a wholly owned subsidiary of the Group, has been appointed as an investment manager and holds all management shares of CISDF. The Group holds all issued participating shares of CISDF since its incorporation up to 26 February 2016. The directors of the Company are of the opinion that the fund is regarded as a consolidated structured entity of the Company as CISI Asset Management is able to exercise control over its operation and has significant variable financial interest since its incorporation up to 26 February 2016. Since 26 February 2016, the Group determines that CISDF is an unconsolidated structured entity as the Group no longer has significant variable financial interest after redemption of all participating shares.

---

## **APPENDIX I**

## **ACCOUNTANTS' REPORT**

---

The statutory financial statements of each of the subsidiaries incorporated in Hong Kong for the years ended 31 December 2014 and 2015 were prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and were audited by us.

The financial statements of ISSBF and ISRFIF for the year ended 31 December 2014 were prepared in accordance with International Financial Reporting Standards (the "IFRSs") and were audited by Deloitte & Touche, a firm of certified public accountants registered in the Cayman Islands. CISDF has just been established in 2015, no statutory financial statements have been issued as at the date of this report.

No audited financial statements have been prepared for the Company as there are no statutory audit requirements in the Cayman Islands.

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods in accordance with accounting policies set out in note 4 of Section A below which conform with HKFRSs (the "Underlying Financial Statements"). We have undertaken an independent audit on the Underlying Financial Statements in accordance with the Hong Kong Standards of Auditing issued by the HKICPA and carried out procedures which we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements, on the basis set out in note 2 of Section A below. No adjustments were considered necessary by the directors of the Company in preparation of this report for inclusion in the Document.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are also responsible for the contents of the Document in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information, and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 2 of Section A below, the Financial Information, for the purpose of this report, gives a true and fair view of the financial position of the Group as at 31 December 2014, 31 December 2015 and 31 March 2016 and of the Company as at 31 December 2015 and 31 March 2016 and of the financial performance and consolidated cash flows of the Group for the Relevant Periods.

---

**APPENDIX I**

**ACCOUNTANTS' REPORT**

---

The comparative consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the three months ended 31 March 2015 together with notes thereon have been extracted from the Group's unaudited financial information for the same period (the "March 2015 Financial Information") which was prepared by the directors of the Company solely for the purpose of this report. We conducted our review of the March 2015 Financial Information in accordance with the Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review of the March 2015 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we could become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the March 2015 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the March 2015 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRSs.

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**(A) FINANCIAL INFORMATION**

**Consolidated Statements of Profit or Loss and Other Comprehensive Income**

		Year ended 31 December		Three months ended 31 March	
	NOTES	2014	2015	2015	2016
		HK\$	HK\$	HK\$	HK\$
				(unaudited)	
Revenue	8	120,001,758	364,324,168	53,815,010	79,766,999
Other income	8	4,365,712	3,865,371	644,239	957,221
Finance costs	9	(16,682,557)	(45,843,172)	(7,211,573)	(12,965,744)
Commission and fee expenses	10	(12,976,346)	(79,996,504)	(6,900,500)	(12,586,570)
Staff costs	11	(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	12	2,248,537	(7,419,313)	3,025,178	2,258,976
Profit before taxation	12	23,119,059	48,069,113	4,898,505	7,578,711
Taxation	13	(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
Other comprehensive (expense) income					
<i>Item reclassified subsequently to profit or loss:</i>					
Exchange differences on translating financial statements of foreign operation		(18,443,580)	(58,172)	1,872,990	–
<i>Item reclassified to profit or loss:</i>					
Reclassification of exchange differences on translating financial statements of foreign operation upon 100% redemption of a wholly owned investment fund		–	18,501,752	–	–
Total comprehensive income for the year/period attributable to owner of the Company		327,756	68,947,613	6,806,468	5,796,474
Earnings per share					
Basic (expressed in HKD)	14	0.0399	0.0991	0.0097	0.0114

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**Consolidated Statements of Financial Position**

	NOTES	THE GROUP		At 31 March 2016 HK\$	THE COMPANY	
		At 31 December 2014 HK\$	2015 HK\$		At 31 December 2015 HK\$	At 31 March 2016 HK\$
<b>Non-current assets</b>						
Property and equipment	15	12,754,057	10,170,765	8,370,491	5,688,507	4,816,343
Intangible assets	16	2,821,380	3,019,998	2,780,336	1,392,415	1,242,961
Investment in subsidiaries	17	–	–	–	1,408,150,163	1,408,150,163
Loans receivable	18	7,000,000	–	2,000,000	–	–
Statutory deposits	19	4,527,796	9,717,842	6,503,361	–	–
Deposits, other receivables and prepayments	20	7,251,542	6,585,008	6,923,236	6,259,322	6,599,763
		<u>34,354,775</u>	<u>29,493,613</u>	<u>26,577,424</u>	<u>1,421,490,407</u>	<u>1,420,809,230</u>
<b>Current assets</b>						
Accounts receivable	21	652,010,795	2,683,432,603	2,870,780,337	1,100,000	1,100,000
Loans receivable	18	150,500,000	282,300,000	262,600,000	–	–
Financial assets at fair value through profit or loss	22	579,594,969	–	–	–	–
Statutory deposits	19	48,378,266	12,385,409	14,332,209	–	–
Deposits, other receivables and prepayments	20	29,032,757	11,384,185	11,630,289	4,332,645	5,216,638
Amounts due from related parties	23	–	3,804,021	2,373,400	831,104,021	891,397,675
Bank balances – trust accounts	24	440,374,374	1,655,617,525	1,970,678,195	–	–
Bank balances – general accounts and cash	24	203,186,709	238,022,069	235,447,271	74,343,613	23,074,411
		<u>2,103,077,870</u>	<u>4,886,945,812</u>	<u>5,367,841,701</u>	<u>910,880,279</u>	<u>920,788,724</u>
<b>Current liabilities</b>						
Accounts payable	25	713,120,824	1,943,190,294	2,436,750,492	–	–
Accruals and other payables	26	12,532,875	57,285,281	60,132,943	44,012,866	48,516,704
Amounts due to related parties	23	–	–	–	988,650	1,896,167
Tax payable		3,570,568	149,650	2,233,159	–	1,841,782
Bank borrowings	28	986,500,000	2,416,068,466	2,389,454,855	1,792,000,000	1,792,000,000
		<u>1,715,724,267</u>	<u>4,416,693,691</u>	<u>4,888,571,449</u>	<u>1,837,001,516</u>	<u>1,844,254,653</u>
Net current assets (liabilities)		<u>387,353,603</u>	<u>470,252,121</u>	<u>479,270,252</u>	<u>(926,121,237)</u>	<u>(923,465,929)</u>
<b>Non-current liabilities</b>						
Other liability		–	873,961	480,361	873,961	480,361
Deferred tax liabilities	27	1,030,468	1,615,788	1,314,516	779,771	645,249
Net assets		<u>420,677,910</u>	<u>497,255,985</u>	<u>504,052,799</u>	<u>493,715,438</u>	<u>496,217,691</u>
<b>Capital and reserves</b>						
Share capital	29	–	1,000	49,000,000	1,000	49,000,000
Exchange reserve		(18,443,580)	–	–	–	–
(Accumulated losses) retained earnings	30	(53,109,270)	(2,605,237)	3,191,237	2,273,617	4,775,870
Other reserves		492,230,760	8,419,401	9,419,741	–	–
Capital reserve	31	–	491,440,821	442,441,821	491,440,821	442,441,821
Equity attributable to the owner of the Company		<u>420,677,910</u>	<u>497,255,985</u>	<u>504,052,799</u>	<u>493,715,438</u>	<u>496,217,691</u>

APPENDIX I

ACCOUNTANTS' REPORT

Consolidated Statements of Changes in Equity

	Equity attributable to owner of the Company					Total equity HK\$
	Share capital HK\$	Capital reserve HK\$ (Note a)	Other reserves HK\$ (Note b)	Exchange reserve HK\$ (Note c)	(Accumulated losses) Retained earnings HK\$	
At 1 January 2014 (Note b(i))	-	-	300,000,000	-	(71,880,606)	228,119,394
Capital contribution from Industrial Securities (Note b(ii))	-	-	190,000,000	-	-	190,000,000
Deemed capital contribution from Industrial Securities (Hong Kong) (Note b(iii))	-	-	2,230,760	-	-	2,230,760
Profit for the year	-	-	-	-	18,771,336	18,771,336
Other comprehensive expense for the year	-	-	-	(18,443,580)	-	(18,443,580)
Total comprehensive (expense) income for the year	-	-	-	(18,443,580)	18,771,336	327,756
At 31 December 2014	-	-	492,230,760	(18,443,580)	(53,109,270)	420,677,910
Deemed capital contribution from Industrial Securities (Hong Kong) (Note b(iii))	-	-	7,630,462	-	-	7,630,462
Issue of shares upon incorporation of the Company	1,000	-	(1,000)	-	-	-
Effect of group reorganisation	-	491,440,821	(491,440,821)	-	-	-
Profit for the year	-	-	-	-	50,504,033	50,504,033
Other comprehensive income for the year	-	-	-	18,443,580	-	18,443,580
Total comprehensive income for the year	-	-	-	18,443,580	50,504,033	68,947,613
At 31 December 2015	1,000	491,440,821	8,419,401	-	(2,605,237)	497,255,985
Deemed capital contribution from Industrial Securities (Hong Kong) (Note b(iii))	-	-	1,000,340	-	-	1,000,340
Issue of shares for acquisition of the Combined Business pursuant to the Group Reorganisation (Note a(i)(ii))	48,999,000	(48,999,000)	-	-	-	-
Profit for the period	-	-	-	-	5,796,474	5,796,474
Total comprehensive income for the period	-	-	-	-	5,796,474	5,796,474
At 31 March 2016	49,000,000	442,441,821	9,419,741	-	3,191,237	504,052,799
At 31 December 2014	-	-	492,230,760	(18,443,580)	(53,109,270)	420,677,910
Deemed capital contribution from Industrial Securities (Hong Kong) (Note b(iii))	-	-	1,796,100	-	-	1,796,100
Profit for the period	-	-	-	-	4,933,478	4,933,478
Other comprehensive income for the period	-	-	-	1,872,990	-	1,872,990
Total comprehensive income for the period	-	-	-	1,872,990	4,933,478	6,806,468
At 31 March 2015 (unaudited)	-	-	494,026,860	(16,570,590)	(48,175,792)	429,280,478

## APPENDIX I

## ACCOUNTANTS' REPORT

*Notes:*

- (a) (i) As at 31 December 2015, capital reserve represents 489,990,000 consideration shares of HK\$0.1 each to be issued by the Company to China Industrial Securities International Holdings Limited ("CISI Holdings"), a wholly owned subsidiary of Industrial Securities (Hong Kong) Financial Holdings Limited ("Industrial Securities (Hong Kong)") for the acquisition of the Combined Businesses (as defined in note 2(d) to the Financial Information) pursuant to the Group Reorganisation as more fully explained in note 2(d).
- (ii) On 22 January 2016, 489,990,000 consideration shares of HK\$0.1 each were issued by the Company to CISI Holdings.
- (iii) As at 31 March 2016, capital reserve represents the difference between 489,990,000 consideration shares at par value of HK\$0.1 each issued by the Company and the consideration for the acquisition of the Combined Businesses pursuant to the Group Reorganisation as more fully explained in note 2(d) to the Financial Information.
- (b) Other reserves represent:
- (i) the share capital of Industrial Securities (Hong Kong);
- (ii) amount of capital injection from Industrial Securities Company Limited ("Industrial Securities"), the ultimate holding company of the Company, to Industrial Securities (Hong Kong) in year 2014, excluding the investment in subsidiary in 興證諮詢服務(深圳)有限公司, a wholly owned subsidiary of Industrial Securities (Hong Kong), established under the laws of the People's Republic of China ("PRC") on 25 November 2013 ("Industrial Securities (Shenzhen)"), which is not included in the Combined Businesses, before the Group Reorganisation; and
- (iii) the deemed capital contribution from Industrial Securities (Hong Kong) with regard to consultancy services provided by Industrial Securities (Shenzhen) to the Group during the years ended 31 December 2014 and 31 December 2015 and three months ended 31 March 2015 and 31 March 2016. As described in note 2, Industrial Securities (Shenzhen) is not included in the Combined Business. The directors of the Company considers that the consultancy services provided by Industrial Securities (Shenzhen) should be accounted for as operating expenses of the Combined Business for the years ended 31 December 2014 and 31 December 2015 and the three months ended 31 March 2015 and 31 March 2016. No remuneration is required to be paid by the Group to Industrial Securities (Shenzhen). As a result, deemed capital contribution from Industrial Securities (Hong Kong) amounting to HK\$2,230,760, HK\$7,630,462, HK\$1,796,100 (unaudited) and HK\$1,000,340 is recognised in other reserves for the years ended 31 December 2014 and 31 December 2015, and the three months ended 31 March 2015 (unaudited) and 31 March 2016 respectively.
- (c) Exchange reserve represents the exchange difference arising from translating the financial statements of ISRFIF, in which its functional currency was Renminbi ("RMB").
- (d) No dividend was paid or proposed by the Company since the date of incorporation to 31 March 2016.



**APPENDIX I**

**ACCOUNTANTS' REPORT**

**Consolidated Statements of Cash Flows**

	NOTE	Year ended 31 December		Three months ended 31 March	
		2014 HK\$	2015 HK\$	2015 HK\$ (unaudited)	2016 HK\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Profit before taxation		23,119,059	48,069,113	4,898,505	7,578,711
Adjustments for:					
Finance costs		16,682,557	45,843,172	7,211,573	12,965,744
Depreciation of property and equipment		2,975,275	6,681,403	1,509,380	1,876,654
Loss (gain) on disposal of property and equipment		–	422	–	(9,450)
Amortisation of intangible assets		370,972	652,344	160,447	249,702
Release of exchange differences on redemption of capital from foreign operation		–	18,501,752	–	–
Consultancy services provided by Industrial Securities (Shenzhen)	2	2,230,760	7,630,462	1,796,100	1,000,340
Operating cash flows before movements in working capital		45,378,623	127,378,668	15,576,005	23,661,701
(Increase) decrease in statutory deposits		(50,673,029)	30,802,811	43,725,148	1,267,681
(Increase) decrease in deposits, other receivables and prepayments		(34,407,407)	18,315,106	12,139,988	(584,332)
(Increase) decrease in financial assets at fair value through profit or loss		(597,006,577)	579,536,797	(18,169,178)	–
Increase in accounts receivable		(460,407,741)	(2,031,421,808)	(2,111,567,073)	(187,347,734)
(Increase) decrease in loans receivable		(157,500,000)	(124,800,000)	(18,500,000)	17,700,000
Increase in bank balances – trust accounts		(103,556,229)	(1,215,243,151)	(138,520,473)	(315,060,670)
Increase in accounts payable		287,420,583	1,230,069,470	424,363,628	493,560,198
Increase in accruals and other payables		7,715,171	45,469,772	1,977,715	3,034,128
Increase (decrease) in other liability		–	873,961	2,054,761	(393,600)
Cash (used in) generated from operations		(1,063,036,606)	(1,339,018,374)	(1,786,919,479)	35,837,372
Tax paid		–	(400,678)	–	–
<b>NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES</b>		<b>(1,063,036,606)</b>	<b>(1,339,419,052)</b>	<b>(1,786,919,479)</b>	<b>35,837,372</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of property and equipment		(12,192,503)	(4,098,533)	(1,653,742)	(79,530)
Proceeds on disposal of property and equipment		–	–	–	12,600
Purchase of intangible assets		(1,779,485)	(850,962)	(74,520)	(10,040)
Repayment from Industrial Securities (Hong Kong)		–	–	–	1,430,621
Advances to Industrial Securities (Hong Kong)		–	(3,804,021)	–	–
<b>NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES</b>		<b>(13,971,988)</b>	<b>(8,753,516)</b>	<b>(1,728,262)</b>	<b>1,353,651</b>

**APPENDIX I**

**ACCOUNTANTS' REPORT**

	NOTE	Year ended 31 December		Three months ended 31 March	
		2014 HK\$	2015 HK\$	2015 HK\$ (unaudited)	2016 HK\$
CASH FLOWS FROM FINANCING ACTIVITIES					
Capital contribution from Industrial Securities		190,000,000	-	-	-
Interest paid		(14,361,710)	(46,560,538)	(7,366,119)	(13,152,210)
Bank borrowings raised		1,116,495,000	4,625,000,000	2,335,237,206	1,463,586,389
Repayments of bank borrowings		(129,995,000)	(3,195,431,534)	(510,191,632)	(1,490,200,000)
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES		<u>1,162,138,290</u>	<u>1,383,007,928</u>	<u>1,817,679,455</u>	<u>(39,765,821)</u>
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 THE YEAR/PERIOD		<u>118,348,564</u>	<u>203,186,709</u>	<u>203,186,709</u>	<u>238,022,069</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD		<u>203,186,709</u>	<u>238,022,069</u>	<u>231,931,695</u>	<u>235,447,271</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS REPRESENTED BY					
Bank balances – general accounts and cash (note 24)		<u>203,186,709</u>	<u>238,022,069</u>	<u>231,931,695</u>	<u>235,447,271</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:					
Interest received		18,838,803	161,206,200	33,015,398	54,226,874
Dividend received		-	2,063,592	-	-

## APPENDIX I

## ACCOUNTANTS' REPORT

### NOTES TO FINANCIAL INFORMATION

#### 1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Cayman Companies Law on 21 July 2015. Its immediate holding company is CISI Holdings and CISI Holdings is 100% owned by Industrial Securities (Hong Kong), the intermediate holding company of the Company. Industrial Securities, a company incorporated in the PRC is the ultimate holding company of the Company. The shares of Industrial Securities are listed on the Shanghai Stock Exchange in the PRC. The address of the registered office and principal place of business of the Company is 32/F, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong.

The Financial Information is presented in Hong Kong dollars ("HK\$"), which is the same as the functional currency of the Company.

#### 2. GROUP REORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Under the group reorganisation, as more fully explained in the section headed "History, Reorganisation and Group Structure – Reorganisation" in the Document, to rationalise the group structure in preparation for the [REDACTED] of Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the following steps were taken place:

- (a) Prior to 18 December 2015, the business of the Group was conducted by Industrial Securities (Hong Kong) and its subsidiaries, which are wholly owned by Industrial Securities.
- (b) On 20 July 2015, CISI Holdings was incorporated and registered as an exempted company with limited liabilities in the Cayman Islands under the Cayman Companies Law, with an initial share capital of HK\$1,000, which was 100% held by Industrial Securities (Hong Kong). CISI Holdings was established for the purpose of holding the Company.
- (c) On 21 July 2015, the Company was incorporated with an initial share capital of HK\$1,000 which was 100% held by CISI Holdings. The Company was established for the purpose of being the [REDACTED] entity on the Stock Exchange.
- (d) On 18 December 2015, Industrial Securities (Hong Kong), CISI Holdings and the Company entered into a subscription agreement (the "Subscription Agreement"), pursuant to which the Company will issue 489,990,000 ordinary shares to CISI Holdings in consideration of receiving the entire business of Industrial Securities (Hong Kong) which includes, among other things, the entire shareholding interest in CISI Brokerage, CISI Asset Management, CISI Futures, CISI Capital, CISI Finance, CISI Investment and CISI Wealth Management, which constitute all wholly owned subsidiaries of Industrial Securities (Hong Kong) except Industrial Securities (Shenzhen) and CISI Holdings, and all other assets, liabilities and contracts of Industrial Securities (Hong Kong) (the "Combined Businesses") and in consideration of receiving the 489,990,000 ordinary shares of the Company, CISI Holdings issued 489,990,000 ordinary shares to Industrial Securities (Hong Kong). Industrial Securities (Shenzhen) has not been included in the Combined Businesses and remains as a subsidiary of Industrial Securities (Hong Kong) after the Group Reorganisation.

Upon completion of the Group Reorganisation on 18 December 2015, CISI Brokerage, CISI Asset Management, CISI Futures, CISI Capital, CISI Finance, CISI Investment and CISI Wealth Management, are beneficially owned as to 100% by the Company. Subsequent to 31 December 2015, the Company issued 489,990,000 ordinary shares of HK\$0.10 each on 22 January 2016 to CISI Holdings. The new shares rank pari passu with the existing shares in all respects.

The Combined Businesses and the Company are under common control of Industrial Securities (Hong Kong) before and after the Group Reorganisation.

The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for the Relevant Periods include the results, changes in equity and cash flows of the Combined Businesses as if the current group structure had been in existence throughout the Relevant Periods.

The consolidated statements of financial position of the Group as at 31 December 2014, 31 December 2015 and 31 March 2016 have been prepared to present the assets and liabilities of the Combined Businesses as if the current group structure had been in existence as at those dates.

## APPENDIX I

## ACCOUNTANTS' REPORT

The consolidated financial statements of the Group are presented using the carrying values of the assets, liabilities and operating results of the Combined Businesses for the Relevant Periods.

The directors of the Company considers that the consultancy services provided by Industrial Securities (Shenzhen) was directly attributable to the Combined Businesses and should be accounted for as operating expenses of the Combined Business for the years ended 31 December 2014, 31 December 2015 and three months ended 31 March 2015 and 31 March 2016. No remuneration is required to be paid by the Group to Industrial Securities (Shenzhen). As a result, deemed capital contribution from Industrial Securities (Hong Kong) amounting to HK\$2,230,760, HK\$7,630,462, HK\$1,796,100 (unaudited) and HK\$1,000,340 is recognised in other reserves for the years ended 31 December 2014, 31 December 2015, and three months ended 31 March 2015 and 31 March 2016 respectively.

### 3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purposes of preparing and presenting the Financial Information for the Relevant Periods, the Group has consistently applied the Hong Kong Accounting Standards ("HKAS"), HKFRSs, amendments and interpretations (hereinafter collectively referred to as the "HKFRSs") which are effective for the accounting period beginning on 1 January 2016 throughout the Relevant Periods.

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective, which may be relevant to the Group:

HKFRS 9	Financial instruments <sup>2</sup>
HKFRS 15	Revenue from contracts with customers <sup>2</sup>
HKFRS 16	Leases <sup>3</sup>
Amendments to HKAS 7	Disclosure initiative <sup>1</sup>
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture <sup>4</sup>
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from contracts with customers <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2017.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2019.

<sup>4</sup> Effective for annual periods beginning on or after a date to be determined.

Except as described below, the directors of the Company do not anticipate that the application of the new and amendments to HKFRSs will have material impact on the Financial Information.

#### HKFRS 9 "Financial instruments"

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9:

- all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the

## APPENDIX I

## ACCOUNTANTS’ REPORT

contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Lifetime expected credit losses represent all credit losses over the remaining life of a financial asset on a probability-weighted basis and 12-month expected credit losses represent the losses expected to arise from default events within the next 12 months after the reporting date. In principle, the adoption of expected credit loss model will accelerate the recognition of the loss allowance as it requires a loss allowance equals to 12-month expected credit losses at initial recognition of financial assets as compared with loss allowance recognised only when there exists observable evidence of impairment under the current standard.
- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

The directors of the Company anticipate that the application of HKFRS 9 in the future will have an impact on amounts reported in respect of the Group’s financial performance and financial assets, (e.g. impairment on accounts receivable and loans receivable) resulting from early provision of credit losses using the expected credit loss model under HKFRS 9 instead of incurred credit loss model under HKAS 39. However, it is not practicable to provide a reasonable estimate of that effect until the Group performs a detailed review.

### **HKFRS 15 “Revenue from contracts with customers”**

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction contracts” and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract

## **APPENDIX I**

## **ACCOUNTANTS' REPORT**

- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported (e.g. revenue generated from investment banking and asset management business) as the timing of revenue recognition may be affected by the new standard, and more disclosures relating to revenue is required. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

### **HKFRS 16 "Leases"**

HKFRS 16 was issued which provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer.

Significant changes to lessee accounting are introduced, with the distinction between operating and finance leases removed and assets and liabilities recognised in respect of all leases (subject to limited expectations for short-term leases and leases of low value assets). In contrast, HKFRS does not include significant changes to the requirements for accounting by lessors.

Total operating lease commitment of the Group in respect of office premises with terms more than 12 months as at 31 March 2016 amounted to approximately HK\$30,345,000. The management of the Group do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group's results but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

## **4. SIGNIFICANT ACCOUNTING POLICIES**

The Financial Information has been prepared in accordance with accounting policies conform with HKFRSs. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Financial Information is determined on such a basis, except for measurements that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36 "Impairment of Assets".

## **APPENDIX I**

## **ACCOUNTANTS' REPORT**

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

### **Basis of consolidation**

The Financial Information incorporates the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group serves as the investment manager of investment funds. These investment funds invest mainly in equities, debt securities and cash and cash equivalents. The Group's percentage ownership in these structured entities can fluctuate from day to day according to the Group's and third-party participation in them. Where the Group is deemed to control such investment funds, with control determined based on an analysis of the guidance in HKFRS 10 "Consolidated financial statements", they are consolidated, with the interests of parties other than the Group being classified as liabilities because there is a contractual obligation for the relevant group entity as an issuer to repurchase or redeem units/shares in such investment funds for cash. These are presented as "Third-party interests in consolidated investment funds" within other liabilities in the consolidated statements of financial position, if any.

### **Changes in the Group's ownership interests in existing subsidiaries**

When the Group loses control of a subsidiary or an entity (including structured entity) controlled by the Company, a gain or loss is recognised in profit or loss and is calculated as the difference between (1) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (2) the previous carrying amount of the assets (including goodwill, if any), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.



## APPENDIX I

## ACCOUNTANTS' REPORT

### Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has restricted activities and a narrow and well defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity. Consequently, investment funds managed by the Group are considered as "structured entities".

### Investments in subsidiaries

Investments in subsidiaries is included in the Company's statement of financial position at cost less any identified impairment losses, if any.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the course of the ordinary activities. Revenue is recognised when it is probable that the economic benefits will flow to the Group and when revenue can be measured reliably, on the following basis.

- (i) Commission income arising from broking business of securities, and futures and option contracts dealings is recorded as income on a trade-date basis;
- (ii) Insurance brokerage commission is recognised as income in accordance with the terms of underlying agreements when the relevant significant acts have been completed, generally at the effective date of the applicable insurance policies;
- (iii) Financial advisory fee and sponsor fee, asset management fee, investment advisory fee, custodian and handling fee income are recognised when services are rendered;
- (iv) Commission income arising from placing, underwriting and sub-underwriting is recognised as income in accordance with the terms of the agreements when the relevant significant acts have been completed;
- (v) Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably from a financial asset. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition; and
- (vi) Dividend income from investments are recognised when the Group's right to receive payment has been established.

### Property and equipment

Property and equipment are stated in the Group and the Company's statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

### Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation



## **APPENDIX I**

## **ACCOUNTANTS' REPORT**

method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gain or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss in the period when the asset is derecognised.

### **Impairment losses on tangible and intangible assets**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### **Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in the profit or loss in the year in which they arise.

For the purposes of presenting the Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that including a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

### **Financial instruments**

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

## APPENDIX I

## ACCOUNTANTS' REPORT

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

### *Financial assets*

The Group's financial assets are classified as financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

### *Financial assets at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the net gains on financial assets at fair value through profit or loss line item. Fair value is determined in the manner described in note 7.

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including accounts receivable, loans receivable, other receivables, amounts due from related parties and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest could be immaterial.

### *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

## APPENDIX I

## ACCOUNTANTS' REPORT

- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all loans and receivables with the exception of accounts receivable and loans receivable, where the carrying amounts are reduced through the use of allowance accounts. Changes in the carrying amounts of the allowance accounts are recognised in profit or loss. When an account receivable or loan receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance accounts.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial assets at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

### *Financial liabilities and equity instruments*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

#### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

#### *Financial liabilities*

Financial liabilities (including amounts due to related parties, accounts payable, bank borrowings and other payables) are subsequently measured at amortised cost using the effective interest method.

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premium or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

### **Derecognition**

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

The Group derecognises financial liabilities when, and only when, the Group's obligation are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### **Offsetting a financial asset and a financial liability**

A financial asset and a financial liability is offset and the net amount presented in the consolidated statements of financial position when, and only when the Group currently has legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

## **APPENDIX I**

## **ACCOUNTANTS' REPORT**

### **Taxation**

Income tax expense represents the sum of the income tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before taxation' as reported in the consolidated statements of profit or loss and other comprehensive income because of items of income or expenses that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient tangible profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### **Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### **Leasing**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

### **Retirement benefit costs**

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") as defined contribution benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

## **APPENDIX I**

## **ACCOUNTANTS' REPORT**

### **5. KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

#### **Impairment on accounts receivable and loans receivable**

The Group reviews its accounts receivable and loans receivable to assess impairment on a regular basis. In determining whether an impairment loss should be recognised in profit or loss, on an individual basis, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the accounts receivable. A considerable amount of judgement is required in assessing the ultimate recovery of these receivables, including the current creditworthiness, the past collection history of each client or borrower and the realisable value of securities or collaterals held, if any. If the financial conditions of clients or borrowers of the Group and their ability to make payments improved, reversal of impairment may be required. Details of the balances are set out in notes 18 and 21.

Management uses estimates based on realisable value of securities or collaterals held, reliability of source of repayment, historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to the receivables for determining their future cash flows and recoverable amounts. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

#### **Income taxes**

Due to the unpredictability of future profit streams, no deferred tax asset has been recognised in the consolidated statements of financial position in relation to the estimated tax losses of approximately HK\$69,079,000, HK\$39,245,000 and HK\$42,148,000 as at 31 December 2014, 2015 and 31 March 2016 respectively. In cases where it becomes probable that sufficient profits or taxable temporary differences are expected to be generated, deferred tax assets would be recognised in profit or loss in that period. Details of the tax losses are disclosed in note 27.

### **6. CAPITAL MANAGEMENT**

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of bank borrowings as disclosed in note 28, and equity attributable to owners of the Company (comprising issued share capital and reserves less accumulated losses).

The directors of the Company review the capital structure by considering the cost of capital and the risks associated with capital. In view of this, the Group will balance its overall capital structure through new share issues or bank borrowings. The Group's overall strategy remains unchanged throughout the Relevant Periods.

Several subsidiaries of the Group (the "Regulated Subsidiaries") are granted licenses by the Hong Kong Securities and Futures Commission (the "SFC") for the business they operate in. The Regulated Subsidiaries are subject to liquid capital requirements under the Hong Kong Securities and Futures (Financial Resources) Rules (the "SF(FR)R"). Management of the Group closely monitors, on a daily basis, the Regulated Subsidiaries' liquid capital level to ensure compliance with the minimum liquid capital requirements under the SF(FR)R. The Regulated Subsidiaries has no non-compliance of capital requirements imposed by the SF(FR)R during the Relevant Periods.

## APPENDIX I

## ACCOUNTANTS' REPORT

### 7. FINANCIAL INSTRUMENTS

#### Categories of financial instruments

	THE GROUP			THE COMPANY	
	At 31 December		At 31 March	At 31 December	At 31 March
	2014	2015	2016	2015	2016
	HK\$	HK\$	HK\$	HK\$	HK\$
<b>Financial assets</b>					
Financial assets through profit or loss	579,594,969	-	-	-	-
Loans and receivables (including cash and cash equivalents)	<u>1,476,899,212</u>	<u>4,867,609,648</u>	<u>5,347,528,728</u>	<u>906,547,634</u>	<u>915,572,086</u>
<b>Financial liabilities</b>					
Amortised cost	<u>1,702,919,373</u>	<u>4,361,480,528</u>	<u>4,828,712,305</u>	<u>1,794,290,425</u>	<u>1,795,109,397</u>

#### Financial risk management objectives and policies

The Group's major financial instruments include financial assets at FVTPL, accounts receivable, loans receivable, other receivables, amounts due from related parties, bank balances and cash, accounts payable, bank borrowings, other payables and amount due to a related party. Details of these financial instruments are disclosed in respective notes. The risks associated with those financial instruments and the policies on how to mitigate these risks are set out below.

The Group's risk management objectives are to achieve a proper balance between risks and yield and minimise the adverse impact of risks on the Group's operating performance. Based on these risk management objectives, the Group's basic risk management strategy is to identify and analyse the various risks the Group is exposed to, and to establish an appropriate tolerance for risk management practice, so as to monitor, notify and respond to the risks regularly and effectively and to control risks at an acceptable level.

The risks that the Group is exposed to in its daily operating activities mainly include market risk (including foreign exchange risk, interest rate risk and other price risk), credit risk and liquidity risk. The Group has established policies and procedures accordingly to identify and analyse the risks. The Group has set up appropriate risk indicators, risk limits, risk policies and internal control process.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

#### Market risk

The Group's activities expose it primarily to the market risk of changes in interest rates and foreign currency risk.

#### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

## APPENDIX I

## ACCOUNTANTS' REPORT

The Group is exposed to fair value interest rate risk in relation to fixed-rate loans receivable and fixed-rate debt securities. The price of investments in debt securities which are classified as financial assets at fair value through profit or loss is affected by the change in market interest rate. The Group currently does not have fair value hedging policy. No debt securities were held as at 31 December 2015 and 31 March 2016. The Group is also exposed to cash flow interest rate risk mainly from balances with banks, secured margin loans and bank borrowings carrying interest at prevailing market rates. The Company is also exposed to cash flow interest rate risk mainly from balances with banks, intercompany loans provided to subsidiaries at floating rate and bank borrowings carrying interest at prevailing market rates.

Management of the Group monitors the related interest rate exposure closely to ensure the interest rate risks are maintained at an acceptable level. The Group's and the Company's cash flow interest rate risk is mainly concentrated on the fluctuation of the Hong Kong Interbank Offered Rate arising from the Group's and the Company's HKD denominated financial instruments.

At 31 December 2014, other than fixed-rate loans receivable amounting to HK\$7 million with remaining maturity over 1 year but less than 2 years, and fixed-rate debt securities classified as financial assets at fair value through profit or loss, the contractual maturities and re-pricing of interest bearing assets and liabilities are within one year.

At 31 December 2015, the contractual maturities and re-pricing of interest bearing assets and liabilities are within one year.

At 31 March 2016, other than fixed-rate loans receivable amounting to HK\$2 million with remaining maturity over 1 year but less than 2 years, the contractual maturities and re-pricing of the interest bearing assets and liabilities are within one year.

### *Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to interest rates for interest-bearing assets and liabilities. The analysis is prepared assuming interest-bearing assets and liabilities outstanding at the end of respective reporting period were outstanding for the whole year/period. When reporting to management of the Group on the interest rate risk, a 100 basis points ("bps") increase or decrease in the relevant interest rates will be adopted for sensitivity analysis, assuming all other variables were held constant, which represents a reasonably possible change in interest rates. Interest bearing bank deposit is not included in the sensitivity analysis for the decrease of interest rate as the bank deposit rate is at a low level and management of the Group considers such downward adjustment is unlikely. A positive number below indicates an increase in profit after taxation of the Group or vice versa.

	<b>THE GROUP</b>		
	<b>Year ended 31 December</b>		<b>Three months ended</b>
	<b>2014</b>	<b>2015</b>	<b>31 March</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit after taxation for the year/period			
Increase by 100bps	(18,834)	11,120	3,530
Decrease by 100bps	21,230	686	(757)
	<u>21,230</u>	<u>686</u>	<u>(757)</u>

## APPENDIX I

## ACCOUNTANTS' REPORT

A positive number below indicates an increase in profit after taxation of the Company or vice versa.

	<b>THE COMPANY</b>	
	<b>Period ended</b>	
	<b>31 December 2015</b>	<b>31 March 2016</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit after taxation for the period		
Increase by 100bps	(7,452)	(1,862)
Decrease by 100bps	8,055	1,905
	<u>                    </u>	<u>                    </u>

### Foreign currency risk

The Group undertake certain transactions denominated in currencies other than its functional currencies, hence they are exposed to exchange rate fluctuation.

The major foreign currency exposure of the Group in HKD equivalent is presented below:

	<b>THE GROUP</b>					
	<b>At 31 December</b>				<b>At 31 March</b>	
	<b>Liabilities</b>		<b>Assets</b>		<b>Liabilities</b>	<b>Assets</b>
	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2016</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
United States Dollars ("USD")	229,044,250	558,491,255	259,029,081	563,529,859	830,964,193	837,349,227
Renminbi ("RMB")	33,805,190	110,755,350	706,602,088	125,218,827	159,483,299	172,611,081
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>

	<b>THE COMPANY</b>			
	<b>At 31 December</b>		<b>At 31 March</b>	
	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>
	<b>2015</b>	<b>2015</b>	<b>2016</b>	<b>2016</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
RMB	–	2,363,200	–	2,373,400
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>

### Foreign currency sensitivity

The directors of the Company do not expect significant foreign exchange risk arising from USD denominated monetary items in view of the HKD pegged system to the USD. The following table details the Group's sensitivity to a 5% strengthening in RMB against HKD, translated at year-end date. 5% sensitivity rate represents management's assessment of a reasonably possible change in foreign exchange rates. For a 5% weakening in RMB against HKD, there would be on equal and opposite impact on the profit after taxation for the year/period and exchange reserve.

	<b>RMB impact</b>					
	<b>THE GROUP</b>		<b>THE COMPANY</b>			
	<b>At 31 December</b>		<b>At 31 March</b>	<b>At 31 December</b>	<b>At 31 March</b>	
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
Increase in profit after taxation for the year/period	2,416	604	548	99	99	
Increase in exchange reserve	30,746	–	–	–	–	
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	



## APPENDIX I

## ACCOUNTANTS' REPORT

### *Other price risk*

The Group was exposed to debt and equity securities price risk through its investments in listed debt and equity securities respectively. The directors of the Company consider that the equity portfolio was insignificant to the investment portfolio of the Group as at 31 December 2014. At 31 December 2015 and 31 March 2016, the Group did not hold any equity securities. If the prices of debt securities had been 2% higher/lower, the post-tax profit for the year ended 31 December 2014 would decrease/increase by approximately HK\$11,544,000. At 31 December 2015 and 31 March 2016, the Group did not hold any debt securities.

### **Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The credit risk exposure consists of the financial assets at FVTPL, accounts receivable, loans receivable, amounts due from related parties and bank balances.

Other than the debt securities listed on stock exchanges in the PRC, the Group's concentration of credit risk by geographical location is mainly in Hong Kong.

As at 31 December 2014 and 2015 and 31 March 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is the carrying amount of respective recognised financial assets as stated in the Group and the Company's statements of financial position. In order to minimise the credit risk, the Group has monitoring procedures for ensuring that follow-up actions are taken to recover overdue debts. The Group reviews the recoverable amount of each individual client and borrower at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank balances is limited because the counterparties are with high credit-ratings assigned by international credit-rating agencies.

The directors of the Company consider that the Company's credit risk on amounts due from an intermediate holding company and the Company's subsidiaries is minimal after taking into account the strong financial position of these companies.

As described in more detail in note 21, the credit risk on accounts receivable is managed through daily monitoring of the outstanding exposures from individual clients, margin values and realisable values of individual client's securities. Apart from the exposures to ten largest margin clients' exposure represented an aggregate of 72%, 33% and 40% of the total accounts receivable from margin clients at 31 December 2014, 31 December 2015 and 31 March 2016, respectively, the directors of the Company considers that the concentration of credit risk is limited due to the customer base being large and unrelated.

The credit risk for account receivables from clearing houses and brokers is considered as not material taking into account of good market reputations and high credit ratings of the counterparties.

The credit risk on loans receivable is managed through regular analysis of the ability of borrowers to meet interest and principal repayment obligations and by changing the lending limits where appropriate. Exposure to credit risk is also managed by obtaining collateral. Apart from the exposures to the concentration of credit risk from three independent counterparties amounting to HK\$125,000,000, HK\$210,000,000 and HK\$210,000,000 in aggregate as at 31 December 2014, 31 December 2015 and 31 March 2016 respectively, the Group does not have any other significant concentration of credit risk on loans receivable.

The Group also invested in debt securities which exposed to credit risk. The management of the Group reviews on a regular basis the portfolio of the debt securities to ensure there is no significant concentration risk. In this regard, the directors of the Company consider that the credit risk relating to the debt securities is closely monitored.

## APPENDIX I

## ACCOUNTANTS' REPORT

The following table details the aggregate investment grade of debt securities investment portfolio held by the Group, as rated by well-known rating agencies.

	<b>THE GROUP</b>
	<b>As at</b>
	<b>31 December 2014</b>
Portfolio by rating category	
Rating	
AA+	7.37%
AA	92.63%
	<hr/>
	100.00%
	<hr/> <hr/>

As at 31 December 2014, the Group had significant concentration of credit risk on debt securities investment. As at 31 December 2015 and 31 March 2016, the Group did not hold any debt securities.

Other than concentration of credit risk on bank balances, amounts due from clearing houses and brokers, top ten margin clients' exposure described above, loans receivable from three independent counterparties and debt securities investment, the Group had no significant concentration of credit risk by any single debtor, with exposure spread over a number of counterparties. The Company has concentration of credit risk on accounts receivable from a subsidiary, amounts due from an intermediate holding company and the Company's subsidiaries, and bank balances.

### Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The directors of Company consider that the liquidity risk of the Group is remote because the Group has sufficient assets to repay the liabilities when demanded. The directors of the Company also consider that the liquidity risk of the Company is remote as it could raise fund from banks or its subsidiaries to repay the liabilities when demanded.

The table below analyses the financial liabilities of the Group and the Company into relevant maturity groupings based on the earliest date on which the Group and the Company can be required to pay. Bank borrowings with a repayment on demand clause are included in the "on demand and less than one month" time band. As at 31 December 2014, 31 December 2015 and 31 March 2016, the aggregate undiscounted principal amounts of these bank borrowings of the Group amounted to HK\$986,500,000, HK\$1,624,068,466 and HK\$1,597,454,855 respectively. As at 31 December 2015 and 31 March 2016, the aggregate undiscounted principal amounts of these borrowing of the Company amounted to HK\$1,000,000,000. The maturity dates for other financial liabilities are based on the agreed repayment dates.

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**THE GROUP**

	Weighted average effective interest rate	Repayable on demand and less than one month HK\$	More than 1 month to 1 year HK\$	Total contractual undiscounted cash flows HK\$	Carrying amount HK\$
<i>At 31 December 2014</i>					
Accounts payable	0.01%	713,126,767	–	713,126,767	713,120,824
Bank borrowings (including interest payable)	2.84%	988,820,847	–	988,820,847	988,820,847
Other payable	N/A	977,702	–	997,702	997,702
		<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<i>At 31 December 2015</i>					
Accounts payable	0.01%	1,943,206,487	–	1,943,206,487	1,943,190,294
Bank borrowings (including interest payable)	1.97%	1,625,671,947	798,388,800	2,424,060,747	2,417,671,947
Other payable	N/A	618,287	–	618,287	618,287
		<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<i>At 31 March 2016</i>					
Accounts payable	0.01%	2,436,770,798	–	2,436,770,798	2,436,750,492
Bank borrowings (including interest payable)	1.94%	1,598,871,870	796,646,400	2,395,518,270	2,390,871,870
Other payable	N/A	1,089,943	–	1,089,943	1,089,943
		<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>

**THE COMPANY**

	Weighted average effective interest rate	Repayable on demand and less than one month HK\$	More than 1 month to 1 year HK\$	Total contractual undiscounted cash flow HK\$	Carrying amount HK\$
<i>At 31 December 2015</i>					
Amount due to a related party	N/A	988,650	–	988,650	988,650
Bank borrowings (including interest payable)	1.9%	1,001,301,775	798,388,800	1,799,690,575	1,793,301,775
		<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<i>At 31 March 2016</i>					
Amounts due to related parties	N/A	1,896,167	–	1,896,167	1,896,167
Bank borrowings (including interest payable)	1.9%	1,001,213,230	796,646,400	1,797,859,630	1,793,213,230
		<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>

## APPENDIX I

## ACCOUNTANTS' REPORT

Taking into account the Group's financial position, for those borrowings with repayment on demand clauses, the directors of the Company do not believe that it is probable the banks will exercise their discretionary rights to demand immediate repayment. As the scheduled repayment dates of these borrowings are all less than one month from the end of each reporting period, the maturity analysis without taking into account the repayment on demand clause would be similar to the above table and no further analysis is presented.

### Fair value measurement of financial instruments

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1: Inputs are quoted prices (unadjusted) in active market for identical assets or liabilities than the entity can access at the measurement date;
- Level 2: Inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly;
- Level 3: Inputs are unobservable inputs for the asset or liability.

### Fair value of the financial assets and financial liabilities that are not measured on a recurring basis

The fair value of financial assets and financial liabilities not measured at fair value on a recurring basis is estimated using discounted cash flow method.

The carrying amounts of the financial assets and financial liabilities not measured at fair value on a recurring basis approximate their fair values as at 31 December 2014, 2015 and 31 March 2016.

### Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following tables give information about how the fair values of these financial assets and financial liabilities are determined including their fair value hierarchy and valuation technique.

#### THE GROUP

	Fair value as at 31 December 2014 HK\$	Fair value hierarchy	Valuation technique
Financial assets FVTPL			
Equity securities			
– listed in Hong Kong	2,368,400	Level 1	Quoted prices in an active market
Debt securities			
– listed outside Hong Kong	577,226,569	Level 2	Quoted prices other than in an active market

As at 31 December 2015 and 31 March 2016, the Group did not hold equity securities and debt securities. There were no transfers between Level 1, 2 and 3 during the Relevant Periods.

APPENDIX I

ACCOUNTANTS' REPORT

8. REVENUE AND OTHER INCOME

An analysis of revenue and other income is as follows:

Revenue

	THE GROUP			
	Year ended 31 December		Three months ended 31 March	
	2014 HK\$	2015 HK\$	2015 HK\$	2016 HK\$
	(unaudited)			
(a) Brokerage:				
Commission and fee income from securities brokerage	23,957,212	115,595,417	10,588,110	17,519,367
Commission and fee income from futures and options brokerage	21,334,827	59,568,979	9,949,524	5,784,648
	<u>45,292,039</u>	<u>175,164,396</u>	<u>20,537,634</u>	<u>23,304,015</u>
(b) Loans and financing:				
Interest income from margin financing	8,060,224	107,108,132	7,104,258	47,800,427
Interest income from money lending activities	1,924,836	19,922,056	2,621,270	5,132,116
	<u>9,985,060</u>	<u>127,030,188</u>	<u>9,725,528</u>	<u>52,932,543</u>
(c) Investment banking:				
Commission on placing, underwriting and sub-underwriting	18,098,206	20,997,217	266,037	420,000
Financial advisory fee income	2,021,940	2,218,575	1,306,640	–
Sponsor fee income	–	2,400,000	–	1,000,000
	<u>20,120,146</u>	<u>25,615,792</u>	<u>1,572,677</u>	<u>1,420,000</u>
(d) Asset management:				
Asset management fee income	808,536	5,534,168	758,673	1,036,499
Investment advisory fee income	369,000	1,534,151	181,000	462,342
	<u>1,177,536</u>	<u>7,068,319</u>	<u>939,673</u>	<u>1,498,841</u>
(e) Wealth management:				
Insurance brokerage commission income	–	–	–	611,600
	<u>–</u>	<u>–</u>	<u>–</u>	<u>611,600</u>
(f) Proprietary trading:				
Interest income from financial assets at fair value through profit or loss	29,682,335	12,902,976	8,817,354	–
Dividend income from financial assets at fair value through profit or loss	–	2,063,592	–	–
Net realised gain on financial assets at fair value through profit or loss	6,358,528	21,865,019	19,267,081	–
Less: unrealised gain recognised in prior year	–	(7,386,114)	(7,386,114)	–
Net unrealised gain on financial assets at fair value through profit or loss	7,386,114	–	341,177	–
	<u>43,426,977</u>	<u>29,445,473</u>	<u>21,039,498</u>	<u>–</u>
	<u>120,001,758</u>	<u>364,324,168</u>	<u>53,815,010</u>	<u>79,766,999</u>

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**Other income**

	<b>THE GROUP</b>			
	<b>Year ended 31 December</b>		<b>Three months ended 31 March</b>	
	<b>2014</b>	<b>2015</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
			(unaudited)	
Interest income from financial institutions	2,415,552	3,277,888	603,027	886,738
Sundry income	1,950,160	587,483	41,212	70,483
	<u>4,365,712</u>	<u>3,865,371</u>	<u>644,239</u>	<u>957,221</u>

**9. FINANCE COSTS**

	<b>THE GROUP</b>			
	<b>Year ended 31 December</b>		<b>Three months ended 31 March</b>	
	<b>2014</b>	<b>2015</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
			(unaudited)	
Interest on bank borrowings and overdrafts	16,550,815	45,720,474	7,185,255	12,929,044
Interest on clients' account	129,331	122,172	26,318	36,700
Others	2,411	526	–	–
	<u>16,682,557</u>	<u>45,843,172</u>	<u>7,211,573</u>	<u>12,965,744</u>

**10. COMMISSION AND FEE EXPENSES**

	<b>THE GROUP</b>			
	<b>Year ended 31 December</b>		<b>Three months ended 31 March</b>	
	<b>2014</b>	<b>2015</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
			(unaudited)	
Sales commission paid to account executives	133,392	37,937,918	1,613,026	7,071,169
Commission and fee paid to brokers	10,997,746	25,050,666	4,610,384	3,286,938
Others (note)	1,845,208	17,007,920	677,090	2,228,463
	<u>12,976,346</u>	<u>79,996,504</u>	<u>6,900,500</u>	<u>12,586,570</u>

Note: Amount includes the custodian fees, scrip fee, clearing fee and other handling fee.

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**11. STAFF COSTS**

	<b>THE GROUP</b>			
	<b>Year ended 31 December</b>		<b>Three months ended 31 March</b>	
	<b>2014</b>	<b>2015</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
			(unaudited)	
Amount paid and payable to directors and employees comprise:				
Salaries, commission and bonuses	35,305,570	97,968,697	19,201,667	24,537,550
Contribution to the MPF Scheme	615,895	1,324,552	282,657	401,559
Other staff costs	455,952	716,019	381,993	383,120
	<u>36,377,417</u>	<u>100,009,268</u>	<u>19,866,317</u>	<u>25,322,229</u>

Staff and directors' bonuses are discretionary and determined with reference to the Group's and the individual's performance. Details of the MPF Scheme is disclosed in note 35.

**12. PROFIT BEFORE TAXATION**

	<b>THE GROUP</b>			
	<b>Year ended 31 December</b>		<b>Three months ended 31 March</b>	
	<b>2014</b>	<b>2015</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
			(unaudited)	
Profit before taxation has been arrived at after charging (crediting):				
Auditor's remuneration	834,477	734,711	115,938	149,438
Legal and professional fee	467,594	1,086,110	–	415,582
Operating lease payments	7,464,424	19,293,397	4,593,682	4,916,972
Amortisation of intangible assets	370,972	652,344	160,447	249,702
Depreciation of property and equipment	2,975,275	6,681,403	1,509,380	1,876,654
Telephone and postage	1,474,051	3,734,758	1,017,482	676,276
Maintenance fee	3,462,040	13,307,105	3,029,605	2,609,486
Transportation expenses	2,658,242	2,965,789	350,061	181,764
Other gains or losses:	(2,248,537)	7,419,313	(3,025,178)	(2,258,976)
• Exchange gain	(2,248,537)	(11,082,861)	(3,025,178)	(2,249,526)
• Other loss (note)	–	18,501,752	–	–
• Loss (gain) on disposal of property and equipment	–	422	–	(9,450)
Entertainment expenses	3,005,646	4,852,121	515,236	725,221
	<u>3,005,646</u>	<u>4,852,121</u>	<u>515,236</u>	<u>725,221</u>

Note: Amount arising from reclassification of exchange difference on translation of financial statements of foreign operation upon 100% redemption of ISRFIF, a wholly owned investment fund, during the year ended 31 December 2015. The amount was recognised in exchange reserve as at 31 December 2014.

APPENDIX I

ACCOUNTANTS' REPORT

13. TAXATION

	THE GROUP			
	Year ended 31 December 2014 HK\$	2015 HK\$	Three months ended 31 March 2015 HK\$ (unaudited)	2016 HK\$
Current tax:				
PRC Corporate Income Tax	3,570,568	252,012	–	–
Hong Kong Profits Tax	–	124,958	–	2,208,467
	<u>3,570,568</u>	<u>376,970</u>	<u>–</u>	<u>2,208,467</u>
(Over) underprovision in prior year/period:				
PRC Corporate Income Tax	–	(3,421,902)	(119,520)	–
Hong Kong Profits Tax	–	24,692	–	(124,958)
	<u>–</u>	<u>(3,397,210)</u>	<u>(119,520)</u>	<u>(124,958)</u>
	<u>3,570,568</u>	<u>(3,020,240)</u>	<u>(119,520)</u>	<u>2,083,509</u>
Deferred tax (note 27):				
Current year/period	777,155	585,320	84,547	(301,272)
	<u>4,347,723</u>	<u>(2,434,920)</u>	<u>(34,973)</u>	<u>1,782,237</u>

According to Guoshuihan [2009] No. 47 issued by the State Administration of Taxation in the PRC on 23 January 2009 ("Circular 47"), Qualified Foreign Institutional Investors ("QFIIs") would be subject to a corporate income tax 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 in the PRC, have jointly issued Caishui [2014] No. 79 ("Circular 79"), which temporarily exempts QFIIs and RMB Qualified Foreign Institutional Investors ("RQFIIs") from capital gains derived from the trading of shares and other equity interest investments on or after 17 November 2014, and those capital gains derived prior to 17 November 2014 would be subject to Corporate Income Tax in accordance with the relevant laws in the PRC.

In respect of the uncertainty of the definition of equity investments in the PRC tax law, the management of the Group provided the Corporate Income Tax at a rate of 10% on the net realised and unrealised gain, and accrued interest on the PRC debt securities held by ISRFIF, a wholly owned investment fund of the Group, through the RQFII program, for the year ended 31 December 2014. Upon disposal of all debt securities held by ISRFIF and the completion of outbound repatriation of the monies held by ISRFIF after approval from relevant authorities in the PRC in 2015, the management of the Group considers that the uncertainty for the Corporate Income Tax on certain income derived by ISRFIF is significantly reduced, and the overprovision for PRC Corporate Income Tax is reversed in the year ended 31 December 2015.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits throughout the Relevant Periods.



**APPENDIX I**

**ACCOUNTANTS' REPORT**

The tax charge (credit) for the Relevant Periods can be reconciled to the profit before taxation per the consolidated statements of profit or loss and other comprehensive income as follows:

	<b>THE GROUP</b>			
	<b>Year ended 31 December</b>		<b>Three months ended 31 March</b>	
	<b>2014</b>	<b>2015</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
			(unaudited)	
Profit before taxation	<u>23,119,059</u>	<u>48,069,113</u>	<u>4,898,505</u>	<u>7,578,711</u>
Tax at domestic income tax rate (16.5%)	3,814,645	7,931,403	808,253	1,250,488
Effect of different tax rates of subsidiaries operating in other jurisdictions	(2,092,886)	(1,442,204)	(1,146,949)	–
Tax effect of expenses not deductible for tax purpose	2,594,138	9,089,538	2,636,574	1,991,139
Tax effect of income not taxable for tax purpose	(2,030,167)	(10,046,504)	(4,052,037)	(1,113,996)
Tax effect of tax losses not recognised	3,989,992	2,668,888	2,061,592	963,333
Utilisation of tax losses previously not recognised	(1,878,395)	(7,591,488)	(222,886)	(484,301)
Overprovision in prior year/period	–	(3,397,210)	(119,520)	–
Others	(49,604)	352,657	–	(824,426)
Tax charge (credit) for the year/period	<u>4,347,723</u>	<u>(2,434,920)</u>	<u>(34,973)</u>	<u>1,782,237</u>

**14. EARNINGS PER SHARE**

The calculation of the basic earnings per share attributable to the owner of the Company is based on the following data on the assumption that the Group had been in existence throughout the Relevant Periods:

	<b>Year ended 31 December</b>		<b>Three months ended 31 March</b>	
	<b>2014</b>	<b>2015</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
			(unaudited)	
<b>Earnings (HK\$)</b>				
Earnings for the purpose of basic earnings per share:				
Profit for the year/period attributable to owner of the Company	<u>18,771,336</u>	<u>50,504,033</u>	<u>4,933,478</u>	<u>5,796,474</u>
<b>Number of shares</b>				
Weighted average number of ordinary shares for the purpose of basic earnings per share assuming that the [REDACTED] as detailed in Appendix IV of the Document had been effective on 1 January 2014	<u>470,022,668</u>	<u>509,383,471</u>	<u>509,383,471</u>	<u>509,383,471</u>

For each of the years ended 31 December 2014 and 2015 and the three months ended 31 March 2015 (unaudited) and 2016, there were no potential ordinary shares in issue, thus no diluted earnings per share is presented.

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**15. PROPERTY AND EQUIPMENT**

**THE GROUP**

	<b>Leasehold improvement HK\$</b>	<b>Motor vehicles HK\$</b>	<b>Furniture and fixtures HK\$</b>	<b>Computer equipment HK\$</b>	<b>Total HK\$</b>
<b>COST</b>					
At 1 January 2014	3,656,730	769,307	13,544	5,665,259	10,104,840
Additions	5,478,928	–	14,746	6,698,829	12,192,503
At 31 December 2014	9,135,658	769,307	28,290	12,364,088	22,297,343
Written off	–	–	–	(8,443)	(8,443)
Additions	76,780	–	33,800	3,987,953	4,098,533
At 31 December 2015	9,212,438	769,307	62,090	16,343,598	26,387,433
Additions	–	–	–	79,530	79,530
Disposals	–	–	–	(63,000)	(63,000)
At 31 March 2016	9,212,438	769,307	62,090	16,360,128	26,403,963
<b>DEPRECIATION</b>					
At 1 January 2014	(2,539,395)	(144,707)	(5,512)	(3,878,397)	(6,568,011)
Charge for the year	(1,117,335)	(91,393)	(2,944)	(1,763,603)	(2,975,275)
At 31 December 2014	(3,656,730)	(236,100)	(8,456)	(5,642,000)	(9,543,286)
Written off	–	–	–	8,021	8,021
Charge for the year	(2,199,249)	(91,337)	(9,675)	(4,381,142)	(6,681,403)
At 31 December 2015	(5,855,979)	(327,437)	(18,131)	(10,015,121)	(16,216,668)
Eliminated on disposals	–	–	–	59,850	59,850
Charge for the period	(559,411)	(22,834)	(3,376)	(1,291,033)	(1,876,654)
At 31 March 2016	(6,415,390)	(350,271)	(21,507)	(11,246,304)	(18,033,472)
<b>CARRYING VALUES</b>					
At 31 December 2014	5,478,928	533,207	19,834	6,722,088	12,754,057
At 31 December 2015	3,356,459	441,870	43,959	6,328,477	10,170,765
At 31 March 2016	2,797,048	419,036	40,583	5,113,824	8,370,491

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**THE COMPANY**

	<b>Leasehold improvement HK\$</b>	<b>Motor vehicles HK\$</b>	<b>Furniture and fixtures HK\$</b>	<b>Computer equipment HK\$</b>	<b>Total HK\$</b>
<b>COST</b>					
At date of incorporation	–	–	–	–	–
Transferred from Industrial Securities (Hong Kong)	3,542,929	449,481	21,309	1,979,742	5,993,461
At 31 December 2015	3,542,929	449,481	21,309	1,979,742	5,993,461
Additions	–	–	–	48,930	48,930
Disposals	–	–	–	(63,000)	(63,000)
At 31 March 2016	3,542,929	449,481	21,309	1,965,672	5,979,391
<b>DEPRECIATION</b>					
At date of incorporation	–	–	–	–	–
Charge for the period	(186,470)	(7,611)	(727)	(110,146)	(304,954)
At 31 December 2015	(186,470)	(7,611)	(727)	(110,146)	(304,954)
Eliminated on disposals	–	–	–	59,850	59,850
Charge for the period	(559,411)	(22,834)	(2,179)	(333,520)	(917,944)
At 31 March 2016	(745,881)	(30,445)	(2,906)	(383,816)	(1,163,048)
<b>CARRYING VALUES</b>					
At 31 December 2015	3,356,459	441,870	20,582	1,869,596	5,688,507
At 31 March 2016	2,797,048	419,036	18,403	1,581,856	4,816,343

The above items of property and equipment are depreciated on a straight-line basis at the following rate per annum:

Leasehold improvement	Over the lease term
Motor vehicles	12.5%
Furniture and fixtures	20%
Computer equipment	50%

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**16. INTANGIBLE ASSETS**

**THE GROUP**

	<b>Software</b> <i>HK\$</i>	<b>Trading rights</b> <i>HK\$</i>	<b>Total</b> <i>HK\$</i>
<b>COST</b>			
At 1 January 2014	1,081,640	1,000,000	2,081,640
Additions	1,779,485	–	1,779,485
At 31 December 2014	2,861,125	1,000,000	3,861,125
Additions	850,962	–	850,962
At 31 December 2015	3,712,087	1,000,000	4,712,087
Additions	10,040	–	10,040
At 31 March 2016	3,722,127	1,000,000	4,722,127
<b>AMORTISATION</b>			
At 1 January 2014	(668,773)	–	(668,773)
Charge for the year	(370,972)	–	(370,972)
At 31 December 2014	(1,039,745)	–	(1,039,745)
Charge for the year	(652,344)	–	(652,344)
At 31 December 2015	(1,692,089)	–	(1,692,089)
Charge for the period	(249,702)	–	(249,702)
At 31 March 2016	(1,941,791)	–	(1,941,791)
<b>CARRYING VALUES</b>			
At 31 December 2014	<u>1,821,380</u>	<u>1,000,000</u>	<u>2,821,380</u>
At 31 December 2015	<u>2,019,998</u>	<u>1,000,000</u>	<u>3,019,998</u>
At 31 March 2016	<u>1,780,336</u>	<u>1,000,000</u>	<u>2,780,336</u>

## APPENDIX I

## ACCOUNTANTS' REPORT

### THE COMPANY

	Software HK\$
COST	
At date of incorporation	–
Transferred from Industrial Securities (Hong Kong)	1,445,486
	<hr/>
At 31 December 2015	1,445,486
Additions	10,040
	<hr/>
At 31 March 2016	1,455,526
	<hr/>
AMORTISATION	
At date of incorporation	–
Charge for the period	(53,071)
	<hr/>
At 31 December 2015	(53,071)
Charge for the period	(159,494)
	<hr/>
At 31 March 2016	(212,565)
	<hr/>
CARRYING VALUES	
At 31 December 2015	1,392,415
	<hr/> <hr/>
At 31 March 2016	1,242,961
	<hr/> <hr/>

Intangible assets include trading rights in the Stock Exchange and the Hong Kong Futures Exchange Limited with indefinite useful life and the using rights of software with finite life.

Software are initially recognised at cost. The cost less estimated residual values (if any) of the software is amortised on a straight-line basis over their expected useful lives of 3 years, and charged to the profit or loss.

The trading rights held by the Group are considered by the directors of the Company as having indefinite useful lives because they are expected to contribute net cash inflows indefinitely. The trading rights will not be amortised until their useful lives are determined to be finite. Instead, they will be tested for impairment annually and whenever there is an indication that they may be impaired.

No impairment loss on intangible assets is recognised during the Relevant Periods.

### 17. INVESTMENT IN SUBSIDIARIES

	THE COMPANY	
	At 31 December 2015 HK\$	At 31 March 2016 HK\$
Unlisted shares, at cost	1,408,150,163	1,408,150,163
	<hr/> <hr/>	<hr/> <hr/>

As disclosed in note 2, pursuant to the Group Reorganisation to rationalise the group structure to prepare for the [REDACTED] of the shares of the Company, the Company acquired the entire shareholding interest in all wholly owned subsidiaries of Industrial Securities (Hong Kong) except for Industrial Securities (Shenzhen) and CISI Holdings, including CISI Brokerage, CISI Futures, CISI Capital, CISI Asset Management, CISI Finance, CISI Investment and CISI Wealth Management, from Industrial Securities (Hong Kong) at an aggregated net asset value amount of HK\$1,408,150,163.

### Interests in unconsolidated structured entities

During the Relevant Periods, other than the wholly owned investment funds, including ISSBF (up to 30 April 2015), ISRFIF (up to 2 November 2015) and CISDF (up to 26 February 2016), CISI Asset Management serves as the investment manager of several investment funds. CISI Asset Management has provided initial capital, normally US\$100 in the form of management shares for the set up of these funds. As at 31 March 2016, the Group determined that all of these investment funds are unconsolidated structured entities (see note 38 for details).

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**18. LOANS RECEIVABLE**

	<b>THE GROUP</b>		
	<b>At 31 December</b>		<b>At 31 March</b>
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
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
	<u>157,500,000</u>	<u>282,300,000</u>	<u>264,600,000</u>

The credit quality of loans receivable are summarised as follows:

	<b>THE GROUP</b>		
	<b>At 31 December</b>		<b>At 31 March</b>
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Neither past due nor impaired	157,500,000	282,300,000	264,600,000

The exposure of the Group's fixed-rate loans receivable to interest rate risks and their contractual maturity dates are as follows:

**Fixed-rate loans receivable denominated in HKD**

	<b>Effective interest rate</b>	<b>At 31 December</b>		<b>At 31 March</b>
		<b>2014</b>	<b>2015</b>	<b>2016</b>
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Within one year	(31.12.2014: 5.25% to 7.5% per annum; 31.12.2015: 6.25% to 8.25% per annum; 31.3.2016: 6% to 8.25% per annum)	150,500,000	282,300,000	262,600,000
In more than one year but not more than two years	(31.3.2014 and 31.3.2016: 5.25% per annum)	7,000,000	–	2,000,000
		<u>157,500,000</u>	<u>282,300,000</u>	<u>264,600,000</u>

As at 31 December 2014, 31 December 2015 and 31 March 2016, the loans receivable amounting to HK\$157,500,000, HK\$282,300,000 and HK\$262,600,000 are secured by listed securities from the borrowers and cash balance in their cash clients' accounts with aggregates fair value of HK\$720,012,224, HK\$1,963,626,561 and HK\$1,881,513,115 respectively. At 31 December 2014, 2015 and 31 March 2016, the fair value of the collateral is sufficient to cover the balance of loans on an individual basis, and the directors of the Company consider the amounts to be recoverable. At 31 March 2016, there is an unsecured loan receivable of HK\$2,000,000, the directors of the Company consider the amount to be recovered based on the evaluation of the repayment capacity of the borrower.

## APPENDIX I

## ACCOUNTANTS' REPORT

### 19. STATUTORY DEPOSITS

Statutory deposits represent deposits with clearing houses. They are non-interest bearing.

#### Non-current portion

In accordance with Central Clearing and Settlement System ("CCASS"), admission fee, basic contribution and dynamic contribution to the guarantee fund of a defaulting clearing participant will be used to offset its indebtedness arising in the course of dealing in securities as disclosed in note 37 in accordance with the rules of CCASS.

Under the arrangement with HKFE Clearing Corporation Limited ("HKCC"), the statutory deposit could be used to set off against accounts payable to HKCC.

The directors of the Company do not expect to realise the amounts within twelve months after the reporting period.

#### Current portion

In accordance with CCASS, the Group is required to provide to Hong Kong Securities Clearing Company Limited (the "HKSCC") deposits from time to time as determined by HKSCC, as the Group has become a China Connect Clearing Participant under the rules of CCASS since year 2014. Amounts will be used to offset the Group's indebtedness arising in the course of dealing in securities as disclosed in note 37 in accordance with the rules of CCASS. The directors of the Company expect to realise the amounts in its normal operating cycle.

### 20. DEPOSITS, OTHER RECEIVABLES AND PREPAYMENTS

	THE GROUP			THE COMPANY	
	At 31 December		At 31 March	At 31 December	At 31 March
	2014	2015	2016	2015	2016
	HK\$	HK\$	HK\$	HK\$	HK\$
Deposits	7,836,509	6,585,008	6,923,236	6,259,322	6,599,763
Other receivables	23,827,334	4,433,430	3,649,525	–	–
Deferred [REDACTED] expenses	–	306,409	1,249,768	397,409	1,403,018
Prepayments	4,620,456	6,644,346	6,730,996	3,935,236	3,813,620
	<u>36,284,299</u>	<u>17,969,193</u>	<u>18,553,525</u>	<u>10,591,967</u>	<u>11,816,401</u>
Analysed as					
Current	29,032,757	11,384,185	11,630,289	4,332,645	5,216,638
Non-current	7,251,542	6,585,008	6,923,236	6,259,322	6,599,763
	<u>36,284,299</u>	<u>17,969,193</u>	<u>18,553,525</u>	<u>10,591,967</u>	<u>11,816,401</u>

APPENDIX I

ACCOUNTANTS’ REPORT

21. ACCOUNTS RECEIVABLE

	THE GROUP		Year ended 31 March 2016 HK\$
	Year ended 31 December		
	2014 HK\$	2015 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 initial public offering (“IPO”) (Note)	–	–	12,635,861
	<u>495,667,962</u>	<u>2,519,902,832</u>	<u>2,760,392,665</u>
Accounts receivable arising from the business of dealing in futures and options contracts:			
Clearing house	13,287,834	18,641,515	13,715,817
Brokers	142,479,330	134,452,891	93,739,033
	<u>155,767,164</u>	<u>153,094,406</u>	<u>107,454,850</u>
Accounts receivable arising from the business of corporate finance clients	<u>346,640</u>	<u>7,941,669</u>	<u>1,500,000</u>
Accounts receivable arising from the business of asset management clients	<u>229,029</u>	<u>2,493,696</u>	<u>1,432,822</u>
	<u>652,010,795</u>	<u>2,683,432,603</u>	<u>2,870,780,337</u>

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.

Except for secured margin loans and accounts receivable for subscription of new shares in IPO, the normal settlement terms of accounts receivable arising from the business of dealing in securities are two days after trade date. Accounts receivable arising from the business of dealing in futures and options contracts are one day after trade date.

In respect of accounts receivable arising from the business of dealing in securities, included in the accounts receivable from cash clients are debtors with a carrying amount of HK\$862,937, HK\$14,986,312 and HK\$3,554,917 as at 31 December 2014, 2015 and 31 March 2016 respectively, which are past due at the end of each reporting period but which the directors of the Company consider not to be impaired as there has not been a significant change in credit quality and a substantial portion of the carrying amount is subsequently settled. The directors of the Company consider full amounts to be recoverable.

The accounts receivable from cash clients with a carrying amount of HK\$10,807,227, HK\$33,541,964 and HK\$35,205,298 are neither past due nor impaired as at 31 December 2014, 2015 and 31 March 2016 and the directors of the Company are of the opinion that the amounts are recoverable.

For secured margin loans, as at 31 December 2014, 31 December 2015 and 31 March 2016, the loans are repayable on demand subsequent to settlement date and carry interest at Hong Kong prime rate plus 3% per annum during the Relevant Periods. They are generally included in “Neither past due nor impaired” category. The total market value of securities pledged as collateral in respect of the loans to margin clients were approximately HK\$1,543,520,000, HK\$8,940,763,000 and HK\$8,639,645,000 as at 31 December 2014, 31 December 2015 and 31 March 2016 respectively. Securities are assigned with specific margin ratios for calculating their margin values. Additional funds or collateral are required if the amount of accounts receivable outstanding exceeds the eligible margin value of securities deposited. As at 31 December 2014, 31 December 2015 and 31 March 2016, 99%, 98% and 94% of the outstanding balances, respectively, were secured by sufficient collateral on an individual basis. The collateral held can be repledged and can be sold at the Group’s discretion to settle any outstanding amount owed by margin clients. Management of the Group has assessed the market value of the pledged securities of each individual



## APPENDIX I

## ACCOUNTANTS' REPORT

customer that has margin shortfall as at the end of each reporting period and considered that no impairment allowance is necessary taking into consideration of subsequent repayment of monies or additional collateral received. The Group had obtained margin clients' consent to pledge their securities collateral to secure banking facilities granted to the Group to finance the margin loan. Details of the Group's pledged assets are disclosed in note 28.

In respect of accounts receivable arising from the business of dealing in future and options contracts, under the settlement arrangement with HKCC (the clearing house), all open positions held at HKCC 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 HKCC. In accordance with the agreement with the brokers, mark-to-market profits or losses are treated as if they were settled and are included in accounts receivable with brokers.

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

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

	<b>THE GROUP</b>		
	<b>At 31 December 2014 HK\$</b>	<b>2015 HK\$</b>	<b>At 31 March 2016 HK\$</b>
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
	<u>652,010,795</u>	<u>2,683,432,603</u>	<u>2,870,780,337</u>

To minimise the Group's exposure to credit risk, there is a credit risk control team responsible for the evaluation of the customers' credit rating, financial background and repayment abilities. Management of the Group has set up the credit limits for each individual customer which could be changed at the Group's discretion. Any further extension of credit beyond these approval limits has to be first approved by the compliance department and then by the senior management of the Group on individual basis. The Group has a policy for testing for impairment accounts receivable without sufficient collaterals and those with default or delinquency in interest or principal payments. The assessment is based on an evaluation of the collectability, aging analysis, current creditworthiness, collaterals value and the past collection history of each customer.

In determining the recoverability of the accounts receivable, the Group considers any change in the credit quality of the accounts receivable from the date at which credit was initially granted up to the reporting date. The Group has concentration of credit risk to ten largest margin clients' exposure representing 72%, 33% and 40% of the total loans to margin clients as at 31 December 2014, 2015 and 31 March 2016 respectively. The balances due from the ten largest securities margin clients were approximately HK\$297,553,000, HK\$806,858,000 and HK\$992,372,000 as at 31 December 2014, 2015 and 31 March 2016 respectively, which is neither past due nor impaired, of which the whole amount is secured by clients' pledged securities with an aggregate fair value of HK\$941,854,000, HK\$3,293,961,000 and HK\$3,754,980,000 at the end of each reporting period respectively. The Group believes that the amount is considered recoverable given the collateral is sufficient to cover the entire balance on individual basis. In view of the nature of business of dealing in securities, futures and options contracts, no aging analysis on those accounts receivable is disclosed, as in the opinion of the directors of the Company, the aging analysis does not give additional value in view of the nature of the business.

## APPENDIX I

## ACCOUNTANTS' REPORT

The following is an aging analysis of accounts receivable arising from the business of corporate finance clients and asset management clients based on date of invoice/contract note at the reporting date:

### Corporate finance clients

	At 31 December 2014 HK\$	2015 HK\$	At 31 March 2016 HK\$
Less than 31 days	346,640	4,254,045	–
31 – 60 days	–	2,187,624	–
61 – 90 days	–	–	–
91 – 180 days	–	1,500,000	1,500,000
	<u>346,640</u>	<u>7,941,669</u>	<u>1,500,000</u>

### Asset management clients

	At 31 December 2014 HK\$	2015 HK\$	At 31 March 2016 HK\$
Less than 31 days	229,029	720,084	507,933
31 – 60 days	–	255,897	281,380
61 – 90 days	–	329,209	245,004
91 – 180 days	–	655,181	398,505
Over 180 days	–	533,325	–
	<u>229,029</u>	<u>2,493,696</u>	<u>1,432,822</u>

During the Relevant Periods, no margin loans were granted to the directors of the Company and directors of the subsidiaries.

The Group offset certain accounts receivable and accounts payable when the Group currently has a legally enforceable right to set off the balances; and intends to settle on a net basis or to realise the balances simultaneously. Details are set out in note 37.

Details of the Group's policy on credit risk are set out in note 7.

As at 31 December 2015 and 31 March 2016, the Company has a brokerage account with CISI Brokerage with an accounts receivable of HK\$1,100,000.

## 22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	THE GROUP At 31 December 2014 HK\$
<b>Held for trading</b>	
Debt securities	
– listed outside Hong Kong ( <i>note</i> )	577,226,569
Equity securities	
– listed in Hong Kong	<u>2,368,400</u>
	<u>579,594,969</u>

The Group disposed all debt securities and equity securities held for trading during the year ended 31 December 2015. No debt securities and equity securities were held by the Group as at 31 December 2015 and 31 March 2016.

*Note:* Debt securities are listed on the stock exchanges in the PRC.

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**23. AMOUNTS DUE FROM (TO) RELATED PARTIES**

The Group had the following balances with related parties during Relevant Periods:

**THE GROUP**

	<b>At 31 December</b>		<b>At 31 March</b>
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Amount due from Industrial Securities (Hong Kong)	–	3,804,021	2,373,400

Amounts are non-trading in nature, unsecured, repayable on demand, and non-interest bearing. The Group expected to recover the amount due from Industrial Securities (Hong Kong) within one year. The maximum amount outstanding during the year ended 31 December 2015 and the three months ended 31 March 2016 is HK\$3,804,021 and HK\$3,804,021 respectively.

**THE COMPANY**

	<b>At 31</b>	<b>Maximum</b>	<b>At 31 March</b>	<b>Maximum</b>
	<b>December</b>	<b>amount</b>	<b>2016</b>	<b>amount</b>
	<i>HK\$</i>	<b>outstanding</b>	<i>HK\$</i>	<b>outstanding</b>
		<b>during the</b>		<b>during the</b>
		<b>period</b>		<b>period</b>
		<i>HK\$</i>		<i>HK\$</i>
Amount due from Industrial Securities (Hong Kong) ( <i>note 1</i> )	3,804,021	3,804,021	2,373,400	3,804,021
Amount due from CISI Brokerage ( <i>note 3</i> )	545,000,000	595,000,000	621,923,108	625,000,000
Amount due from CISI Finance ( <i>note 2</i> )	282,300,000	292,000,000	264,600,000	284,300,000
Amount due from CISI Futures ( <i>note 1</i> )	–	–	493,239	760,000
Amount due from CISI Capital ( <i>note 1</i> )	–	–	416,702	1,060,000
Amount due from CISI Asset Management ( <i>note 1</i> )	–	–	1,018,677	1,018,677
Amount due from CISI Wealth Management ( <i>note 1</i> )	–	–	572,549	572,549
	<u>831,104,021</u>		<u>891,397,675</u>	
Amount due to CISI Finance ( <i>note 1</i> )	–		923,367	
Amount due to CISI Investment ( <i>note 1</i> )	988,650		972,800	
	<u>988,650</u>		<u>1,896,167</u>	

The management of the Company assesses at the reporting date whether or not there is objective evidence that the amounts are impaired and considered that no impairment is necessary.

## APPENDIX I

## ACCOUNTANTS' REPORT

*Notes:*

1. Amounts due from (to) related parties are non-trading in nature, unsecured, repayable on demand, and non-interest bearing.
2. Amount represents the intercompany loans due from subsidiaries. The loans are unsecured and repayable on demand and bear floating rate interest in accordance with the Company's bank borrowing cost plus a spread by reference to market borrowing cost.
3. Amount represents the intercompany loans due from CISI Brokerage amounting to HK\$545,000,000 and HK\$615,000,000 as at 31 December 2015 and 31 March 2016 respectively, which are unsecured and repayable on demand and bear floating rate interest in accordance with the Company's bank borrowing cost plus a spread by reference to market borrowing cost, and amount due from CISI Brokerage amounting to nil and HK\$6,923,108 as at 31 December 2015 and 31 March 2016 respectively, which are non-trading in nature, unsecured, repayable on demand, and non-interest bearing.

### 24. BANK BALANCES – TRUST ACCOUNTS/GENERAL ACCOUNTS AND CASH

The Group receives and holds money deposited by customers and other institutions in the course of conducting regulated activities. These customers' monies are maintained in trust bank accounts and bear interest at commercial rate. The Group has recognised the corresponding accounts payable to respective customers and other institutions. However, the Group currently does not have an enforceable right to offset those payables with the deposits placed.

The Group's bank balances and cash denominated in United States dollar and Renminbi are equivalent to HK\$118,210,578 and HK\$102,585,465 as at 31 December 2014, HK\$412,219,366 and HK\$87,702,820 as at 31 December 2015 and HK\$741,938,275 and HK\$103,789,720 as at 31 March 2016 respectively. As at 31 December 2015 and 31 March 2016, the Company's bank balances and cash are denominated in HK\$.

The general accounts held by the Group and the Company comprises current and saving deposits held by the Group at prevailing market interest rate and bank deposits bearing interest at commercial rate with original maturity of three months or less.

### 25. ACCOUNTS PAYABLE

	<b>THE GROUP</b>		
	<b>At 31 December</b>	<b>At 31 March</b>	
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
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
	<u>504,502,769</u>	<u>1,530,338,851</u>	<u>1,933,927,708</u>
Accounts payable arising from the business of dealing in futures and options contracts:			
Clients	199,161,764	412,851,443	502,822,784
Accounts payable arising from the business of corporate finance clients	9,456,291	–	–
	<u>713,120,824</u>	<u>1,943,190,294</u>	<u>2,436,750,492</u>

In respect of accounts payable arising from the business of dealing in securities, accounts payable to clearing house represent trades pending settlement arising from business of dealing in securities transactions which are normally two trading days after the trade date or at specific terms agreed with clearing house. The majority of the accounts payable to cash clients and margin 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 under the normal course of business. Only the amounts in excess of the required margin deposits and cash collateral stipulated are repayable on demand.

## APPENDIX I

## ACCOUNTANTS' REPORT

Accounts payable to brokerage clients (except certain balances arising from trades pending settlement) mainly include money held on behalf of clients at banks and at clearing houses by the Group, and are interest-bearing at the prevailing market interest rate.

In respect of accounts payable arising from the business of dealing in futures and options contracts, settlement arrangements with clients follow the same settlement mechanism with HKCC or brokers as disclosed in note 21 and profits or losses arising from mark-to-market settlement arrangement are included in accounts payables with clients. Accounts payable to clients arising from the business of dealing in futures and option contract are non-interest bearing.

The normal settlement terms of accounts payable arising from the business of dealing in securities for cash clients are two days after trade date and accounts payable arising from the business of dealing in futures contracts are one day after trade date. No aging analysis is disclosed as in the opinion of the directors of the Company, the aging analysis does not give additional value in view of the nature of the business.

Accounts payable to a corporate finance client is repayable on demand. The aging of accounts payable to corporate finance client is within 30 days based on the transaction date as at 31 December 2014.

### 26. ACCRUALS AND OTHER PAYABLES

	THE GROUP			THE COMPANY	
	At 31 December		At 31 March	At 31 December	At 31 March
	2014	2015	2016	2015	2016
	HK\$	HK\$	HK\$	HK\$	HK\$
Accrued charges (note a)	9,234,326	55,063,513	57,625,985	42,711,091	47,303,474
Interest payable (note b)	2,320,847	1,603,481	1,417,015	1,301,775	1,213,230
Other payables	977,702	618,287	1,089,943	–	–
	<u>12,532,875</u>	<u>57,285,281</u>	<u>60,132,943</u>	<u>44,012,866</u>	<u>48,516,704</u>

*Notes:*

- (a) The amount mainly comprises of the accrued operating expenses including staff salary and bonus and also commission to accounts executives.
- (b) The amount represents the interest payable arising from bank borrowings.

## APPENDIX I

## ACCOUNTANTS' REPORT

### 27. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognised and movements thereon during the Relevant Periods:

	Accelerated tax depreciation	
	THE GROUP HK\$	THE COMPANY HK\$
At 1 January 2014	253,313	–
Charge to profit or loss (note 13)	777,155	–
At 31 December 2014	1,030,468	–
Charge to profit or loss (note 13)	585,320	779,771
At 31 December 2015	1,615,788	779,771
Charge to profit or loss (note 13)	(301,272)	(134,522)
At 31 March 2016	1,314,516	645,249

No deferred tax asset has been recognised in the Group's consolidated statements of financial position in relation to estimated tax losses of approximately HK\$69,079,000, HK\$39,245,000 and HK\$42,148,000 as at 31 December 2014, 31 December 2015 and 31 March 2016 respectively, as it is uncertain that there will be sufficient taxable profits for the utilisation. The tax losses may be carried forward indefinitely.

### 28. BANK BORROWINGS

	THE GROUP			THE COMPANY	
	At 31 December		At 31 March	At 31 December	At 31 March
	2014 HK\$	2015 HK\$	2016 HK\$	2015 HK\$	2016 HK\$
Variable rate borrowings	986,500,000	2,416,068,466	2,389,454,855	1,792,000,000	1,792,000,000
Repayable within one year and contain a repayable on demand clause	986,500,000	1,624,068,466	1,597,454,855	1,000,000,000	1,000,000,000
Repayable within one year without a repayable on demand clause	–	792,000,000	792,000,000	792,000,000	792,000,000
Repayable within one year	986,500,000	2,416,068,466	2,389,454,855	1,792,000,000	1,792,000,000

The bank borrowings consist of loans borrowed by the Group and the Company from banks to facilitate investment and general working capital.

The interest rate of the Group's borrowings as at 31 December 2014, 2015 and 31 March 2016 ranged from Hong Kong Interbank Offered Rate ("HIBOR") + 1.9% to HIBOR + 3.3%, HIBOR + 1.04% to HIBOR to 2.7% and the fixed interest rate of 0.9% to HIBOR + 2.65%, respectively. The interest rate of the Company's borrowings as at 31 December 2015 and 31 March 2016 ranged from HIBOR + 1.04% to HIBOR + 2.3% and HIBOR + 2.3% to HIBOR + 2.65% respectively.

## APPENDIX I

## ACCOUNTANTS' REPORT

At 31 December 2014 and 2015 and 31 March 2016, HK\$986,500,000, HK\$2,416,068,466 and HK\$2,389,454,855 was drawn by the Group respectively under the aggregated banking facilities of HK\$1,960,000,000, HK\$7,265,000,000 and HK\$8,177,500,000 of the Group respectively. Industrial Securities issued a guarantee to support the banking facilities of the Group amounting to HK\$650,000,000, HK\$2,000,000,000 and HK\$2,000,000,000 as at 31 December 2014, 2015 and 31 March 2016 respectively. Industrial Securities provided letters of comfort to support the banking facilities of the Group amounting to HK\$1,060,000,000, HK\$2,560,000,000 and HK\$3,160,000,000 as at 31 December 2014, 2015 and 31 March 2016 respectively. Industrial Securities (Hong Kong) provided corporate guarantees to support the banking facilities of the Group amounting to HK\$1,060,000,000, HK\$1,535,000,000 and HK\$3,165,000,000 as at 31 December 2014, 2015 and 31 March 2016 respectively. The Group's bank borrowings amounting to HK\$50,000,000, HK\$394,068,466 and HK\$284,954,855 as at 31 December 2014, 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 approximately HK\$306,146,000, HK\$1,679,079,500 and HK\$1,929,683,500 respectively upon receiving client's authorisation. The Group's bank borrowings amounting to HK\$500,000,000, HK\$1,030,000,000 and HK\$ 1,200,000,000 as at 31 December 2014, 2015 and 31 March 2016 respectively was guaranteed by Industrial Securities (Hong Kong). Also, the Group's bank borrowings amounting to nil, HK\$792,000,000 and HK\$792,000,000 as at 31 December 2014, 2015 and 31 March 2016 respectively was guaranteed by Industrial Securities. In addition to the above guarantees and charges, Industrial Securities provided letters of comfort to support the bank borrowings of the Group amounting to HK\$550,000,000, HK\$1,554,068,066 and HK\$1,504,954,855 as at 31 December 2014, 2015 and 31 March 2016 respectively. The directors of the Company 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] of the shares of the Company.

At 31 December 2015 and 31 March 2016, HK\$1,792,000,000 and HK\$1,792,000,000 was drawn by the Company under the aggregated banking facilities of HK\$5,500,000,000 and HK\$5,500,000,000 respectively. Also, the Company's bank borrowings amounting to HK\$1,000,000,000 and HK\$792,000,000 was guaranteed by Industrial Securities (Hong Kong) and Industrial Securities respectively as at 31 December 2015 and 31 March 2016. Industrial Securities issued a guarantee to support the banking facilities of the Company amounting to HK\$2,000,000,000 as at 31 December 2015 and 31 March 2016. Also, Industrial Securities provided a letter of comfort and Industrial Securities provided corporate guarantees to support the banking facilities of the Company amounting to HK\$1,000,000,000 as at 31 December 2015 and 31 March 2016. The directors of the Company represent that the letters of comfort provided by Industrial Securities and guarantees issued by Industrial Securities and Industrial Securities (Hong Kong) will be released prior to the [REDACTED] of the shares of the Company.

### 29. SHARE CAPITAL

The Company was incorporated on 21 July 2015 and therefore there was no issued share capital shown in the consolidated statement of financial position as at 31 December 2014.

Details of the movement of share capital for the year ended 31 December 2015 and the three months ended 31 March 2016 are as follows:

	Notes	Number of ordinary shares of HK0.10 each	Share capital HK\$
Authorised:			
At date of incorporation	(a)	10,000	1,000
Increase in authorised share capital	(b)	489,990,000	48,999,000
As at 31 December 2015 and 31 March 2016		<u>490,000,000</u>	<u>49,000,000</u>
Issued and fully paid:			
At date of incorporation	(c)	10,000	1,000
As at 31 December 2015		10,000	1,000
Issue of shares	(d)	489,990,000	48,999,000
As at 31 March 2016		<u>490,000,000</u>	<u>49,000,000</u>

## APPENDIX I

## ACCOUNTANTS' REPORT

*Notes:*

- (a) On 21 July 2015, the Company was incorporated in Cayman Island with authorised share capital of HK\$1,000 divided into 10,000 shares of HK\$0.1 each.
- (b) Pursuant to resolutions in writing of the sole member of the Company passed on 18 December 2015, the authorised share capital of the Company was increased from HK\$1,000 to HK\$49,000,000 divided into 490,000,000 shares of a par value of HK\$0.1 each.
- (c) On 21 July 2015, 10,000 paid shares of HK\$0.1 were issued to CISI Holdings.
- (d) On 22 January 2016, 489,990,000 paid shares of HK\$0.1 were issued to CISI Holdings pursuant to the Group Reorganisation.

### 30. RETAINED EARNINGS OF THE COMPANY

	<b>THE COMPANY</b> <i>HK\$</i>
At date of incorporation	–
Profit and total comprehensive income for the period	<u>2,273,617</u>
At 31 December 2015	2,273,617
Profit and total comprehensive income for the period	<u>2,502,253</u>
At 31 March 2016	<u><u>4,775,870</u></u>

### 31. CAPITAL RESERVE OF THE COMPANY

As at 31 December 2015, capital reserve represents 489,990,000 ordinary shares of HK\$0.1 each to be issued by the Company to CISI Holdings, a wholly owned subsidiary of Industrial Securities (Hong Kong) pursuant to the Group Reorganisation as more fully explained in note 2(d). On 22 January 2016, 489,990,000 consideration shares of HK\$0.1 were issued by the Company to CISI Holdings. As at 31 March 2016, capital reserve represents the difference between 489,990,000 consideration shares at par value of HK\$0.1 each issued by the Company and the consideration for the acquisition of the Combined Businesses pursuant to the Group Reorganisation (as more fully explained in note 2(d)).

### 32. COMMITMENTS

#### Commitments under operating lease

At the end of the each of the reporting period, the Group and the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<b>THE GROUP</b>			<b>THE COMPANY</b>	
	<b>At 31 December</b> <b>2014</b> <i>HK\$</i>	<b>2015</b> <i>HK\$</i>	<b>At 31 March</b> <b>2016</b> <i>HK\$</i>	<b>At 31 December</b> <b>2015</b> <i>HK\$</i>	<b>At 31 March</b> <b>2016</b> <i>HK\$</i>
Within one year	17,755,746	20,839,533	23,251,097	20,839,533	23,251,097
In the second to fifth year inclusive	<u>31,584,770</u>	<u>11,346,632</u>	<u>7,315,680</u>	<u>11,346,632</u>	<u>7,315,680</u>
	<u><u>49,340,516</u></u>	<u><u>32,186,165</u></u>	<u><u>30,566,777</u></u>	<u><u>32,186,165</u></u>	<u><u>30,566,777</u></u>

Operating lease payments represent rentals payable by the Group and the Company for its office premises and director/staff apartments. Leases and rentals are negotiated and fixed for periods of two to three years.



APPENDIX I

ACCOUNTANTS' REPORT

33. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

During the Relevant Periods, the emoluments paid or payable by the Group are as follows:

	Fees HK\$	Salaries, allowances HK\$	Benefits in kind <sup>#</sup> HK\$	Discretionary bonus HK\$ (note 5)	Retirement benefit schemes contributions HK\$	Total HK\$
For the year ended 31 December 2014						
Huang Jin Guang (notes 1, 2 and 4)	–	1,682,759	364,000	1,187,500	–	3,234,259
Wang Xiang (notes 2, 3 and 4)	–	887,891	222,300	500,000	–	1,610,191
	<u>–</u>	<u>2,570,650</u>	<u>586,300</u>	<u>1,687,500</u>	<u>–</u>	<u>4,844,450</u>

	Fees HK\$	Salaries, allowances HK\$	Benefits in kind <sup>#</sup> HK\$	Discretionary bonus HK\$ (note 5)	Retirement benefit schemes contributions HK\$	Total HK\$
For the year ended 31 December 2015						
Huang Jin Guang (notes 1, 2 and 4)	–	1,782,100	492,000	2,870,000	–	5,144,100
Wang Xiang (notes 2, 3 and 4)	–	1,239,512	218,400	2,340,000	–	3,797,912
	<u>–</u>	<u>3,021,612</u>	<u>710,400</u>	<u>5,210,000</u>	<u>–</u>	<u>8,942,012</u>

	Fees HK\$	Salaries, allowances HK\$	Benefits in kind <sup>#</sup> HK\$	Discretionary bonus HK\$ (note 5)	Retirement benefit schemes contributions HK\$	Total HK\$
For the three months ended 31 March 2015 (unaudited)						
Huang Jin Guang (notes 1, 2 and 4)	–	494,687	123,000	462,842	–	1,080,529
Wang Xiang (notes 2, 3 and 4)	–	290,347	54,600	382,028	–	726,975
	<u>–</u>	<u>785,034</u>	<u>177,600</u>	<u>844,870</u>	<u>–</u>	<u>1,807,504</u>

APPENDIX I

ACCOUNTANTS' REPORT

	Fees HK\$	Salaries, allowances HK\$	Benefits in kind <sup>#</sup> HK\$	Discretionary bonus HK\$ (note 5)	Retirement benefit schemes contributions HK\$	Total HK\$
For the three months ended 31 March 2016						
Huang Jin Guang (notes 1, 2 and 4)	–	413,084	123,000	675,757	–	1,211,841
Wang Xiang (notes 2, 3 and 4)	–	326,068	54,600	557,768	–	938,436
	–	739,152	177,600	1,233,525	–	2,150,277

<sup>#</sup> Amounts represent benefits in kind of accommodation provided by the Group.

Notes:

- Mr. Huang Jin Guang was appointed as the director of the Company on 21 July 2015 and acts as chief executive of the Group.
- No retirement benefit schemes contributions was paid or payable by the Group to Mr. Huang Jin Guang and Mr. Wang Xiang during the Relevant Periods as Mr. Huang and Mr. Wang are also employees of the ultimate holding company and the cost of retirement benefit scheme contribution is borne by the ultimate holding company.
- Mr. Wang Xiang was appointed as the director of the Company on 1 June 2016.
- The emoluments disclosed above represent emoluments paid or payable to Mr. Huang Jin Guang and Mr. Wang Xiang (including emoluments for services as employees of the group entities prior to becoming the directors of the Company) by the entities comprising the Group during the Relevant Periods.
- The discretionary bonus of directors or chief executive of the Company was determined by the management of the ultimate and intermediate holding companies and by reference to the Group's financial performance and the directors' and the chief executive's duties, responsibilities and individual performance within the Group.

Mr. Lan Rong, Ms. Zhuang Yuanfang and Ms. Zeng Yanxia were appointed as the directors of the Company on 1 June 2016.

The remuneration of Mr. Lan Rong, Ms. Zhuang Yuanfang and Ms. Zeng Yanxia for the two years ended 31 December 2014 and 2015 and the three months ended 31 March 2015 (unaudited) and 2016 was borne by the ultimate holding company and there is no basis of allocation of their remuneration between the ultimate holding company and the Group.

Ms. Hong Ying, Mr. Tian Li and Mr. Qin Shuo were appointed as the independent non-executive directors of the Company on 27 July 2016, and there was no remuneration paid by the Group for the two years ended 31 December 2014 and 2015 and the three months ended 31 March 2015 (unaudited) and 2016.

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**(b) Highest paid individuals**

The five individuals with the highest emoluments in the Group included one, two, two and two directors of the Company for the two years ended 31 December 2014 and 2015 and the three months ended 31 March 2015 (unaudited) and 2016 respectively, and details of whose emoluments are included in the disclosure above. The emoluments of the remaining four, three, three and three individuals for the two years ended 31 December 2014 and 2015 and the three months ended 31 March 2015 (unaudited) and 2016 respectively are as below:

	<b>THE GROUP</b>			
	<b>Year ended 31 December</b>		<b>Three months ended 31 March</b>	
	<b>2014</b>	<b>2015</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
			(unaudited)	
Employees				
– salaries and allowances	5,078,290	5,997,367	1,496,867	1,602,000
– discretionary bonus	1,140,000	7,004,000	1,190,165	1,469,504
– retirement benefit schemes contributions	67,000	52,500	9,000	13,500
	<u>6,285,290</u>	<u>13,053,867</u>	<u>2,696,032</u>	<u>3,085,004</u>

Their emoluments were within the following bands:

	<b>Number of employees</b>			
	<b>Year ended 31 December</b>		<b>Three months ended 31 March</b>	
	<b>2014</b>	<b>2015</b>	<b>2015</b>	<b>2016</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
			(unaudited)	
Nil to HK\$1,000,000	–	–	2	2
HK\$1,000,001 to HK\$1,500,000	2	–	1	1
HK\$1,500,001 to HK\$2,000,000	1	–	–	–
HK\$2,000,001 to HK\$2,500,000	1	–	–	–
HK\$3,500,001 to HK\$4,000,000	–	2	–	–
HK\$5,500,001 to HK\$6,000,000	–	1	–	–
	<u>–</u>	<u>1</u>	<u>–</u>	<u>–</u>

During the Relevant Periods, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals (including directors and employees), as an inducement to join or upon joining the Group or as compensation for loss of office. None of the the directors waived any emoluments during the Relevant Periods.

## APPENDIX I

## ACCOUNTANTS' REPORT

### 34. RELATED PARTY TRANSACTIONS

Saved as disclosed elsewhere in the Financial Information, the Group had the following material transactions with related parties.

#### (a) Compensation of key management personnel

Other than the directors' emoluments disclosed in note 33(a), the remuneration of other members of key management during the Relevant Periods was as follows:

	THE GROUP			
	Year ended 31 December 2014 HK\$	2015 HK\$	Three months ended 31 March 2015 HK\$ (unaudited)	
Short-term benefits	6,026,000	20,709,629	4,211,551	5,967,735
Post-employment benefits	60,750	102,000	18,000	31,500
	<u>6,086,750</u>	<u>20,811,629</u>	<u>4,229,551</u>	<u>5,999,235</u>

#### (b) Right of trading of RMB denominated securities in the PRC

During the Relevant Periods, the intermediate holding company has maintained deposits amounting to RMB2 million in a designated bank account in the PRC to enable ISRFIF's trading of RMB denominated securities in the PRC by using the approved quota under the PRC RMB Qualified Foreign Institutional Investor program.

During the Relevant Periods, the Group invests in RMB denominated securities in the PRC using such quota of the intermediate holding company free of charge.

#### (c) Consultancy services from a fellow subsidiary

During the Relevant Periods, a fellow subsidiary of the Company provided consultancy services to the Group as disclosed in note 39.

### 35. RETIREMENT BENEFITS SCHEMES

The Group operates a MPF Scheme for all qualifying employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions. Except for voluntary contribution, no forfeited contribution under the MPF Scheme is available to reduce the contribution payable in future years. Effective from 1 June 2014, the cap of contribution amount has been changed from HK\$1,250 to HK\$1,500 per employee per month.

The retirement benefits scheme contributions arising from the MPF Scheme charged to the consolidated statements of profit or loss and other comprehensive income represent contributions paid or payable to the funds by the Group at rates specified in the rules of the schemes.

The contributions paid to the schemes by the Group are disclosed in note 11.

---

## **APPENDIX I**

## **ACCOUNTANTS' REPORT**

---

### **36. SEGMENT REPORTING**

Information reported to the Board of Directors of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of services provided. The CODM considers the Group's operations are located in Hong Kong. The principal activities of the reportable and operating segments under HKFRS 8 are as follows:

Brokerage – provision of securities, futures and options, and insurance brokerage;

Loans and financing – provision of margin financing and secured or unsecured loans to customers;

Investment banking – provision of financial advisory, sponsor, placing and underwriting services;

Assets management – provision of fund management, wealth management and investment advisory services;

Proprietary trading – trading of debt and equity securities.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Inter-segment revenues are charged among segments at an agreed rate with reference to the rate normally charged to third party customers, the nature of services or the costs incurred.

**APPENDIX I**

**ACCOUNTANTS' REPORT**

For the year ended 31 December 2014

	Brokerage HK\$	Loans and financing HK\$	Investment banking HK\$	Assets management HK\$	Proprietary trading HK\$	Eliminations HK\$	Consolidated HK\$
<b>Segment revenue and result</b>							
Revenue from external customers	45,292,039	9,985,060	20,120,146	1,177,536	-	-	76,574,781
Net gains on financial assets at FVTPL	-	-	-	-	43,426,977	-	43,426,977
Inter-segment revenue	39,360	-	-	10,325,609	-	(10,364,969)	-
Segment revenue and net gains on financial assets at FVTPL	45,331,399	9,985,060	20,120,146	11,503,145	43,426,977	(10,364,969)	120,001,758
Revenue presented in the consolidated statement of profit or loss and other comprehensive income							<u>120,001,758</u>
Segment results	10,404,829	3,727,595	7,167,659	6,597,069	15,226,411		43,123,563
Unallocated expenses							<u>(20,004,504)</u>
Profit before taxation presented in the consolidated statement of profit or loss and other comprehensive income							<u>23,119,059</u>
<b>Other segmental information included in the measure of segment results</b>							
Depreciation	1,326,843	-	28,420	17,070	-		1,372,333
Unallocated:							<u>1,602,942</u>
							<u>2,975,275</u>
Amortisation	355,598	-	-	-	-		355,598
Unallocated:							<u>15,374</u>
							<u>370,972</u>
Interest income	1,745,623	9,985,060	2,565	1,269	30,339,937		42,074,454
Unallocated:							<u>8,493</u>
							<u>42,082,947</u>
Interest expenses	131,742	1,990,783	-	-	14,544,687		16,667,212
Unallocated:							<u>15,345</u>
							<u>16,682,557</u>

**APPENDIX I**

**ACCOUNTANTS' REPORT**

For the year ended 31 December 2015

	Brokerage HK\$	Loans and financing HK\$	Investment banking HK\$	Assets management HK\$	Proprietary trading HK\$	Eliminations HK\$	Consolidated HK\$
<b>Segment revenue and result</b>							
Revenue from external customers	175,164,396	127,030,188	25,615,792	7,068,319	–	–	334,878,695
Net gains on financial assets at FVTPL	–	–	–	–	29,445,473	–	29,445,473
Inter-segment revenue	–	–	–	5,633,995	–	(5,633,995)	–
Segment revenue and net gains on financial assets at FVTPL	175,164,396	127,030,188	25,615,792	12,702,314	29,445,473	(5,633,995)	364,324,168
Revenue presented in the consolidated statement of profit or loss and other comprehensive income							364,324,168
Segment results	49,578,718	45,420,958	9,300,573	6,886,655	(6,588,246)		104,598,658
Unallocated expenses							(56,529,545)
Profit before taxation presented in the consolidated statement of profit or loss and other comprehensive income							48,069,113
<b>Other segmental information included in the measure of segment results</b>							
Depreciation	3,265,121	–	8,265	12,397	–	–	3,285,783
Unallocated:							3,395,620
							6,681,403
Amortisation	132,861	–	167	–	–	–	133,028
Unallocated:							519,316
							652,344
Interest income	2,684,515	127,030,232	3,421	2,526	13,480,135	–	143,200,829
Unallocated:							10,223
							143,211,052
Interest expenses	665,733	60,208,187	–	–	7,798,359	(22,829,107)	45,843,172

**APPENDIX I**

**ACCOUNTANTS' REPORT**

For the three months ended 31 March 2015 (unaudited)

	Brokerage HK\$	Loans and financing HK\$	Investment banking HK\$	Assets management HK\$	Proprietary trading HK\$	Eliminations HK\$	Consolidated HK\$
<b>Segment revenue and result</b>							
Revenue from external customers	20,537,634	9,725,528	1,572,677	939,673	–	–	32,775,512
Net gains on financial assets at FVTPL	–	–	–	–	21,039,498	–	21,039,498
Inter-segment revenue	–	–	–	2,991,359	–	(2,991,359)	–
Segment revenue and net gains on financial assets at FVTPL	<u>20,537,634</u>	<u>9,725,528</u>	<u>1,572,677</u>	<u>3,931,032</u>	<u>21,039,498</u>	<u>(2,991,359)</u>	<u>53,815,010</u>
Revenue presented in the consolidated statement of profit or loss and other comprehensive income							<u>53,815,010</u>
Segment results	6,358,764	3,608,294	720,152	1,846,754	13,583,889		26,117,853
Unallocated expenses							<u>(21,219,348)</u>
Profit before taxation presented in the consolidated statement of profit or loss and other comprehensive income							<u>4,898,505</u>
<b>Other segmental information included in the measure of segment results</b>							
Depreciation	<u>765,479</u>	<u>–</u>	<u>2,066</u>	<u>2,846</u>	<u>–</u>	<u>–</u>	770,391
Unallocated:							<u>738,989</u>
							<u>1,509,380</u>
Amortisation	<u>37,220</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	37,220
Unallocated:							<u>123,227</u>
							<u>160,447</u>
Interest income	<u>432,314</u>	<u>9,725,528</u>	<u>8</u>	<u>–</u>	<u>8,987,778</u>	<u>–</u>	19,145,628
Unallocated:							<u>281</u>
							<u>19,145,909</u>
Interest expenses	<u>26,318</u>	<u>3,482,901</u>	<u>–</u>	<u>–</u>	<u>4,165,349</u>	<u>(462,995)</u>	<u>7,211,573</u>



**APPENDIX I**

**ACCOUNTANTS' REPORT**

For the three months ended 31 March 2016

	Brokerage HK\$	Loans and financing HK\$	Investment banking HK\$	Assets management HK\$	Proprietary trading HK\$	Eliminations HK\$	Consolidated HK\$
<b>Segment revenue and result</b>							
Revenue from external customers	23,915,615	52,932,543	1,420,000	1,498,841	–	–	79,766,999
Inter-segment revenue	–	–	186,750	–	–	(186,750)	–
Segment revenue and net gains on financial assets at FVTPL	23,915,615	52,932,543	1,606,750	1,498,841	–	(186,750)	79,766,999
Revenue presented in the consolidated statement of profit or loss and other comprehensive income							<u>79,766,999</u>
Segment results	2,825,720	21,567,975	(1,331,589)	(422,435)	–		22,639,671
Unallocated expenses							<u>(15,060,960)</u>
Profit before taxation presented in the consolidated statement of profit or loss and other comprehensive income							<u>7,578,711</u>
<b>Other segmental information included in the measure of segment results</b>							
Depreciation	951,184	–	2,066	5,461	–	–	958,711
Unallocated:							<u>917,943</u>
							<u>1,876,654</u>
Amortisation	90,083	–	125	–	–	–	90,208
Unallocated:							<u>159,494</u>
							<u>249,702</u>
Interest income	886,478	52,932,543	–	–	–	–	53,819,021
Unallocated:							<u>260</u>
							<u>53,819,281</u>
Interest expenses	237,807	23,867,279	–	–	–	(11,139,342)	12,965,744

## APPENDIX I

## ACCOUNTANTS' REPORT

### Geographical information

Other than the income generated from the proprietary trading business in ISRFIF amounting to approximately HK\$43,210,000, HK\$28,383,000, HK\$20,841,000 and nil for the years ended 31 December 2014 and 2015 and the three months ended 31 March 2015 (unaudited) and 31 March 2016 respectively, the Group's revenue from external customers are all derived from activities in Hong Kong based on the location of services delivered and the Group's non-current assets excluded financial instruments are all located in Hong Kong by physical location of assets. As a result, no geographical segment information is presented.

### Information about major customers

Revenue from customers of the corresponding years/periods contributing over 10% of the total revenue from external customers of the Group are as follows:

	<b>THE GROUP</b>				
	Year ended 31 December <b>2014</b> <i>HK\$</i>	2015 <i>HK\$</i>	Three months ended 31 March <b>2015</b> <i>HK\$</i> (unaudited)		<b>2016</b> <i>HK\$</i>
Customer A <sup>1</sup>	9,946,871	N/A <sup>3</sup>	5,713,801	N/A <sup>3</sup>	
Customer B <sup>2</sup>	8,280,000	N/A <sup>3</sup>	N/A <sup>3</sup>		N/A <sup>3</sup>
Customer C <sup>1</sup>	N/A <sup>3</sup>	N/A <sup>3</sup>	N/A <sup>3</sup>	7,835,963	
	<u>9,946,871</u>	<u>N/A<sup>3</sup></u>	<u>5,713,801</u>	<u>7,835,963</u>	

<sup>1</sup> Revenue from brokerage, loans and financing.

<sup>2</sup> Revenue from investment banking.

<sup>3</sup> The corresponding revenue did not contribute over 10% of the total revenue from external customers of the Group.

No single customer contributes 10% or more to the Group's revenue from external customers for the year ended 31 December 2015.

### 37. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and liabilities subject to offsetting, enforceable master netting arrangement and similar agreements

The disclosures set out in the table below include financial assets that:

- are offset in the Group's consolidated statements of financial position; or
- are subject to enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the Group's consolidated statements of financial position.

Under the agreement of continuous net settlement between the Group and Hong Kong Securities Clearing Company Limited ("HKSCC") and respective agreements between the Group and brokers, the Group has a legally enforceable right to set off money obligations receivable and payable with HKSCC and respective brokers on the same settlement date on a net basis. The Group intends to settle these balances on a net basis.

In addition, the Group has a legally enforceable right to set off the accounts receivable and payable with brokerage clients that are due to be settled on the same date with reference to the settlement method set by the HKSCC and the Group intends to settle these balances on a net basis.

Except for balances which are due to be settled on the same date which are being offset, amounts due from/to HKSCC, brokers and brokerage clients that are not to be settled on the same date, financial collateral including cash and securities received by the Group, deposits placed with HKSCC and brokers do not meet the criteria for offsetting in the consolidated statements of financial position since the right of set-off of the recognised amounts is only enforceable following an event of default.

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**THE GROUP**

As at 31 December 2014

	Gross amount of recognised financial assets HK\$	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position HK\$	Net amounts of financial assets presented in the consolidated statement of financial position HK\$	Related amounts not set off in the consolidated statement of financial position		Net amount HK\$
				Financial instruments HK\$	Collateral received HK\$	
<b>Financial assets</b>						
Accounts receivable arising from the business of dealing in securities	662,030,609	(166,362,647)	495,667,962	(65,938,200)	(352,541,237)	77,188,525

	Gross amount of recognised financial liabilities HK\$	Gross amount of recognised financial assets set off in the consolidated statement of financial position HK\$	Net amounts of financial liabilities presented in the consolidated statement of financial position HK\$	Related amounts not set off in the consolidated statement of financial position		Net amount HK\$
				Financial instruments HK\$	Collateral pledged HK\$	
<b>Financial liabilities</b>						
Accounts payable arising from the business of dealing in securities	670,865,416	(166,362,647)	504,502,769	(65,938,200)	–	438,564,569

As at 31 December 2015

	Gross amount of recognised financial assets HK\$	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position HK\$	Net amounts of financial assets presented in the consolidated statement of financial position HK\$	Related amounts not set off in the consolidated statement of financial position		Net amount HK\$
				Financial instruments HK\$	Collateral received HK\$	
<b>Financial assets</b>						
Accounts receivable arising from the business of dealing in securities	2,733,264,516	(213,361,684)	2,519,902,832	(108,225,175)	(2,298,428,648)	113,249,009

APPENDIX I

ACCOUNTANTS' REPORT

	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
	HK\$	HK\$	HK\$	Financial Instruments	Collateral pledged	HK\$
<b>Financial liabilities</b>						
Accounts payable arising from the business of dealing in securities	1,743,700,535	(213,361,684)	1,530,338,851	(108,225,175)	(12,406,003)	1,409,707,673

As at 31 March 2016

	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
	HK\$	HK\$	HK\$	Financial instruments	Collateral received	HK\$
<b>Financial assets</b>						
Accounts receivable arising from the business of dealing in securities	3,201,318,171	(440,925,506)	2,760,392,665	(163,793,765)	(2,263,876,948)	332,721,952

	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
	HK\$	HK\$	HK\$	Financial Instruments	Collateral pledged	HK\$
<b>Financial liabilities</b>						
Accounts payable arising from the business of dealing in securities	2,374,853,214	(440,925,506)	1,933,927,708	(163,793,765)	-	1,770,133,943

## APPENDIX I

## ACCOUNTANTS' REPORT

### 38. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

A wholly owned subsidiary of the Company, CISI Asset Management, serves as the investment manager of several investment funds, which are considered to be structured entities within the definition of HKFRS 12 "Disclosure of interests in other entities", which are not consolidated in the Financial Information. CISI Asset Management receives an interest in these unconsolidated structured entities through the receipt of management and performance fees. The unconsolidated structured entities invest in a range of asset classes. The carrying values of the Group's interests in these unconsolidated structured entities as recognised in the consolidated statement of financial position as at 31 December 2015 and 31 March 2016 is HK\$1,142,267 and HK\$273,268 respectively (included in accounts receivable) and the management fee and performance fee recognised in the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015 and 31 March 2016 is HK\$1,142,267 and HK\$273,268 respectively. The net asset value of total asset under management ("AUM") for these funds amounts to approximately HK\$328 million and HK\$300 million as at 31 December 2015 and 31 March 2016 respectively. The Group did not have any unconsolidated structured entities as at 31 December 2014.

The unconsolidated structured entities have various investment objectives and policies and are subject to the terms and conditions of their respective offering documentation. However, all unconsolidated structured entities invest their capital, from third-party investors, in a portfolio of assets according to respective investment restrictions set out in the offering documentation in order to provide a return to those investors from capital appreciation of those assets, income from those assets, or both. Accordingly, the portfolio of assets held by these unconsolidated structured entities are susceptible to market price risk and the performance of the investment manager.

#### Maximum exposure to loss

The Group's maximum exposure to loss associated with its interest in these unconsolidated structured entities is limited to the carrying amount mentioned as above.

#### Financial support

The Group has not provided financial support to any of its unconsolidated structured entities during the Relevant Periods, and has no contractual obligations or current intention of providing financial support in the future.

#### Other information

There are no liquidity arrangements, guarantees or other commitments that may affect the fair value or risk of the Group's interest in the unconsolidated structured entities.

### 39. MAJOR NON-CASH TRANSACTIONS

During the Relevant Periods, the Group has the following material non-cash transactions.

As disclosed in note (b)(iii) under the consolidated statements of changes in equity, during the Relevant Periods, the consultancy services provided by Industrial Securities (Shenzhen) amounting to HK\$2,230,760, HK\$7,630,462, HK\$1,796,100 and HK\$1,000,340 for the years ended 31 December 2014 and 2015 and the three months ended 31 March 2015 (unaudited) and 31 March 2016 respectively, is regarded as deemed capital contributed from Industrial Securities (Hong Kong).

## APPENDIX I

## ACCOUNTANTS' REPORT

### (B) DIRECTORS' REMUNERATION

Under the arrangement presently in force, the aggregate remuneration of the Company's directors for the year ending 31 December 2016, excluding discretionary benefits or bonus or other fringe benefits, is estimated to be approximately HK\$4,571,000.

### (C) SUBSEQUENT EVENTS

The following significant events of the Group took place subsequent to 31 March 2016:

1. On 26 April 2016, the Company issued 1,485,148,514 ordinary shares of HK\$1.01 each with a par value of HK\$0.1 each at a cash consideration of HK\$1,499,999,999. All new shares issued rank pari passu in all respects with the then existing shares.
2. On 26 April 2016, the Company issued 633,663,362 shares of HK\$1.01 each with a par value of HK\$0.1 each, credited as fully paid, for cash consideration of HK\$639,999,996 to the [REDACTED] on 26 April 2016. Details of the introduction of [REDACTED] are set out in section headed "Introduction of [REDACTED]" in the Document. All new shares issued rank pari passu in all respects with the then existing shares.
3. Subsequent to 31 December 2015, an employee share participation scheme ("ESPS") has been adopted by the Company for the purpose of incentivising the employees of the Group and to align the interest of the management team of the Group with those of the shareholders of the Company. Details of the ESPS are set out in section headed "Employee Share Participation Scheme" in the Document. On 26 April 2016, the Company issued 277,029,703 ordinary shares of HK\$1.01 each under the employee share participation scheme at a total cash consideration of HK\$279,800,000. All new shares issued rank pari passu in all respects with the then existing shares. The shares issued and allotted pursuant to the ESPS ("ES Shares") are held in a trust. The ES Shares are subject to a lock-up period of twelve months and may be either (i) sold; or (ii) distributed from the trust to the eligible participants under the ESPS, by reference to each eligible participants' proportional initial contribution of the total consideration paid for the ES Shares. The directors of the Company consider that the transactions do not have material financial impact on the Group's financial performance and financial position.
4. Pursuant to the written resolution of the shareholders passed on 27 July 2016, the Company increased its authorised share capital from HK\$288,584,158 to HK\$2,000,000,000 by the creation of an additional of 17,114,158,421 shares of HK\$0.1 each, each ranking pari passu with the shares then in issue in all respects.

Immediately following the [REDACTED], as defined in the Document, being unconditional, 114,158,421 shares will be allotted and issued, credited as fully paid, to persons whose names appear on the register of members of our Company at the close of business on 27 July 2016 in proportion to their then existing shareholdings in our Company, each ranking pari passu in all respects with the then existing issued shares.

---

**APPENDIX I**

**ACCOUNTANTS' REPORT**

---

**(D) SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31 March 2016.

Yours faithfully,

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

---

**APPENDIX II            UNAUDITED PRO FORMA FINANCIAL INFORMATION**

---

**[REDACTED]**



---

**APPENDIX II            UNAUDITED PRO FORMA FINANCIAL INFORMATION**

---

**[REDACTED]**

---

**APPENDIX II            UNAUDITED PRO FORMA FINANCIAL INFORMATION**

---

**[REDACTED]**

---

**APPENDIX II            UNAUDITED PRO FORMA FINANCIAL INFORMATION**

---

**[REDACTED]**

---

**APPENDIX II            UNAUDITED PRO FORMA FINANCIAL INFORMATION**

---

**[REDACTED]**

---

**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAWS**

---

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 21 July 2015 under the Companies Law (Revised) of the Cayman Islands (**Cayman Companies Law**). The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (**Memorandum**) and its Amended and Restated Articles of Association (**Articles**).

**1. MEMORANDUM OF ASSOCIATION**

- (a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

**2. ARTICLES OF ASSOCIATION**

The Articles were adopted on 27 July 2016, which will become effective upon the [REDACTED]. A summary of certain provisions of the Articles is set out below.

**(a) Shares**

*(i) Classes of shares*

The share capital of the Company consists of ordinary shares.

*(ii) Variation of rights of existing shares or classes of shares*

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating

---

APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAWS

---

to general meetings shall mutatis mutandis apply to every such separate general meeting, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a shareholder being a corporation, by its duly authorized representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

*(iii) Alteration of capital*

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorised and subject to any conditions prescribed by law.

*(iv) Transfer of shares*

Subject to the Cayman Companies Law and the requirements of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

---

**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAWS**

---

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

***(v) Power of the Company to purchase its own shares***

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

***(vi) Power of any subsidiary of the Company to own shares in the Company***

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

---

**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAWS**

---

*(vii) Calls on shares and forfeiture of shares*

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.



---

**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAWS**

---

**(b) Directors**

*(i) Appointment, retirement and removal*

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the "retirement by rotation" provisions. The number of Directors shall not be less than two.

---

**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAWS**

---

The office of a Director shall be vacated if he:

- (aa) resigns;
- (bb) dies;
- (cc) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (dd) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) is prohibited from being or ceases to be a director by operation of law;
- (ff) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (gg) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or
- (hh) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

***(ii) Power to allot and issue shares and warrants***

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

---

**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAWS**

---

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

***(iii) Power to dispose of the assets of the Company or any of its subsidiaries***

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

***(iv) Borrowing powers***

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

---

**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAWS**

---

*(v) Remuneration*

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

---

**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAWS**

---

*(vi) Compensation or payments for loss of office*

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

*(vii) Loans and provision of security for loans to Directors*

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more of the Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

*(viii) Disclosure of interest in contracts with the Company or any of its subsidiaries*

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

---

**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAWS**

---

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (aa) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (ee) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

**(c) Proceedings of the Board**

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

---

**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAWS**

---

**(d) Alterations to the constitutional documents and the Company's name**

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

**(e) Meetings of member**

***(i) Special and ordinary resolutions***

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

***(ii) Voting rights and right to demand a poll***

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.



---

**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAWS**

---

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

- (A) at least two members;
- (B) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (C) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

***(iii) Annual general meetings***

The Company must hold an annual general meeting each year. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

***(iv) Notices of meetings and business to be conducted***

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.



---

**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAWS**

---

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Cayman Companies Law and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

**(v) *Quorum for meetings and separate class meetings***

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

**(vi) *Proxies***

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise

---

**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAWS**

---

the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

**(f) Accounts and audit**

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and

---

**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAWS**

---

elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

**(g) Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and
- (iii) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

---

**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAWS**

---

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

**(h) Inspection of corporate records**

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

---

**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAWS**

---

**(i) Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

**(j) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution among the members of the Company are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* among such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution among the members as such are insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

**(k) Subscription rights reserve**

Provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

---

**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAWS**

---

**3.    CAYMAN ISLANDS COMPANY LAW**

The Company was incorporated in the Cayman Islands as an exempted company on 21 July 2015 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

**(a)   Company operations**

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

**(b)   Share capital**

Under Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (i)   paying distributions or dividends to members;
- (ii)   paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii)   any manner provided in section 37 of the Cayman Companies Law;
- (iv)   writing-off the preliminary expenses of the company; and
- (v)   writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

---

**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAWS**

---

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

**(c) Financial assistance to purchase shares of a company or its holding company**

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.



---

**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAWS**

---

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

Subject to a solvency test, as prescribed in the Cayman Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

**(f) Protection of minorities and shareholders' suits**

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

**(g) Disposal of assets**

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).



---

**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAWS**

---

**(h) Accounting and auditing requirements**

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that:

- (i) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (ii) no tax be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
  - (aa) on or in respect of the shares, debentures or other obligations of the Company;  
or
  - (bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking for the Company is for a period of 20 years from 7 June 2016.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

---

**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAWS**

---

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

**(m) Inspection of corporate records**

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

**(n) Register of members**

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands.

**(o) Register of Directors and officers**

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 60 days of any change in such directors or officers, including a change of the name of such directors or officers.

**(p) Winding up**

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

---

**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAWS**

---

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

**(q) Reconstructions**

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which

---

**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND CAYMAN ISLANDS COMPANY LAWS**

---

approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

**(r) Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

**(s) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

## APPENDIX IV

## STATUTORY AND GENERAL INFORMATION

### A. FURTHER INFORMATION ABOUT OUR COMPANY

#### 1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 21 July 2015. Our Company has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 11 September 2015 and our principal place of business in Hong Kong is at 32/F Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong. Mr. Huang Jinguang has been appointed as the authorized representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company was incorporated in the Cayman Islands, we are subject to the relevant laws of the Cayman Islands and our constitution which comprises the Memorandum of Association and the Articles of Association. A summary of the relevant aspects of the Companies Law and certain provisions of the Articles of Association is set out in Appendix III to this document.

#### 2. Changes in share capital of our Company

- (a) As at the date of incorporation of our Company, our authorised share capital was HK\$1,000.00 divided into 10,000 shares of HK\$0.10 each.
- (b) On 18 December 2015, the authorised share capital of our Company was increased from HK\$1,000.00 to HK\$49,000,000 by the creation of an additional of 489,990,000 Shares, each ranking pari passu with our Shares then in issue in all respects.
- (c) On 26 April 2016, the authorised share capital of our Company was increased from HK\$49,000,000 to HK\$288,584,157.9 by the creation of an additional of 2,395,841,579 shares, each ranking pari passu with our Shares then in issue in all respects.
- (d) Immediately following completion of the [REDACTED] and the [REDACTED], and assuming that the [REDACTED] is not exercised, [REDACTED] Shares will be issued fully paid or credited as fully paid, and 16,000,000,000 Shares will remain unissued.
- (e) Other than the general mandate to issue Shares referred to in the paragraph headed "Written resolutions of our Shareholders passed on 27 July 2016" in this Appendix, we do not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares which would effectively alter the control of our Company will be made.

## APPENDIX IV

## STATUTORY AND GENERAL INFORMATION

- (f) Save as disclosed in this document, there has been no alteration in our Company's share capital since its incorporation.

### 3. Written resolutions of our Shareholders passed on 27 July 2016

By written resolutions of our Shareholders passed on 27 July 2016:

- (a) our Company approved and adopted the Memorandum of Association and the Articles of Association with effective from the [REDACTED];
- (b) the authorised share capital of our Company was increased from HK\$288,584,157.9 to HK\$2,000,000,000 by the creation of an additional of 17,114,158,421 Shares of HK\$0.1 each, each ranking pari passu with our Shares then in issue in all respects;
- (c) conditional on the [REDACTED] granting [REDACTED] of and permission to deal in our Shares in issue and Shares to be issued as mentioned in this document including any Shares which may be issued pursuant to the [REDACTED], and on the obligations of the [REDACTED] under the [REDACTED] becoming unconditional and not being terminated in accordance with the terms of the [REDACTED] or otherwise, in each case on or before the date falling 30 days after the date of this document:
  - (i) the [REDACTED] was approved and our Directors were authorised to allot and issue the [REDACTED] pursuant to the [REDACTED] to rank pari passu with the then existing Shares in all respects;
  - (ii) the [REDACTED] was approved and our Directors were authorised to allot and issue our Shares as may be required to be allotted and issued upon the exercise of the [REDACTED] to rank pari passu with the then existing Shares in all respects; and
  - (iii) the [REDACTED] was approved and conditional further on the share premium account of our Company being credited as a result of the [REDACTED], our Directors were authorised to capitalise an amount of [REDACTED] standing to the credit of the share premium account of our Company and to appropriate such amount as to capital to pay up in full at par [REDACTED] Shares for allotment and issue to the persons whose names appear on the register of members of our Company at the close of business on 27 July 2016 in proportion (as nearly as possible without involving fractions) to their then existing shareholdings in our Company, each ranking pari passu in all respects with the then existing issued Shares, and our Directors were authorised to give effect to such capitalisation and distributions;

---

**APPENDIX IV**

**STATUTORY AND GENERAL INFORMATION**

---

- (d) a general unconditional mandate was given to our Directors to allot, issue and deal with, otherwise than by way of rights or an issue of Shares pursuant to any share scheme of our Company or any Share allotted in lieu of the whole or part of a dividend on our Shares in accordance with the Memorandum of Association and the Articles of Association or pursuant to a specific authority granted by our Shareholders or pursuant to the [REDACTED], Shares with an aggregate nominal value not exceeding 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the [REDACTED] and the [REDACTED] but excluding any Shares which may be issued under the [REDACTED], and such mandate to remain in effect until the earliest of:
- (i) the conclusion of the next annual general meeting of our Company; or
  - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum of Association and the Articles of Association or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
  - (iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting;
- (e) a general unconditional mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the aggregate of the nominal value of the share capital of our Company in issue immediately following completion of the [REDACTED] and the [REDACTED] but excluding any Share which may be issued under the [REDACTED], and such mandate to remain in effect until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of our Company; or
  - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum of Association and the Articles of Association or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
  - (iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting; and



## APPENDIX IV

## STATUTORY AND GENERAL INFORMATION

- (f) the general unconditional mandate mentioned in sub-paragraph (d) above was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in sub-paragraph (e) above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the [REDACTED] and the [REDACTED] but excluding any Shares which may be issued under the [REDACTED].

### 4. Corporate Reorganisation

Please refer to "History, Reorganisation and Group Structure" in this document.

### 5. Changes in share capital of subsidiaries

The subsidiaries of our Company are listed in the Accountants' Report, the text of which is set out in Appendix I in this document. Save as described above and in "History, Reorganisation and Group Structure" in this document, there has been no other alteration in the share capital of the subsidiaries of our Company within the two years preceding the date of this document.

### 6. Repurchase of our Shares by our Company

This section includes information required by the Stock Exchange to be included in the document concerning the repurchase of our Shares by our Company.

#### *(a) Provisions of the GEM Listing Rules*

The GEM Listing Rules permit companies with a primary [REDACTED] on the Stock Exchange to purchase their shares on the Stock Exchange subject to certain restrictions.

#### *(i) Shareholders' approval*

The GEM Listing Rules provide that all proposed repurchases of shares (which must be fully paid in the case of shares) by a company with a primary [REDACTED] on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval of a specific transaction.

*Note:* Pursuant to the written resolutions of our Shareholders passed on 27 July 2016, a general unconditional mandate (the "Repurchase Mandate") was given to our Directors authorising our Directors to exercise all powers of our Company to purchase on the Stock Exchange, or any other stock exchange on which our Shares may be listed and recognised by the SFC and the Stock Exchange for this purpose, Shares representing up to 10% of the total nominal amount of our Shares in issue immediately following completion of the



## APPENDIX IV

## STATUTORY AND GENERAL INFORMATION

[REDACTED] and the [REDACTED] but excluding any Shares which may be issued under the [REDACTED], and the Repurchase Mandate shall remain in effect until whichever is the earliest of the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by law or the Articles of Association to be held, or when the Repurchase Mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting.

### *(ii) Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles of Association and the laws of the Cayman Islands. A listed company may not repurchase its own shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

Any repurchases by our Company may be made out of profits or out of the [REDACTED] of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Articles of Association and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of our Company or out of our Company's share premium account before or at the time our Shares are repurchased or, if authorised by the Articles of Association and subject to the Companies Law, out of capital.

### *(iii) Connected parties*

The GEM Listing Rules prohibit our Company from knowingly repurchasing our Shares on the Stock Exchange from a "connected person", which includes a Director, chief executive or substantial Shareholder of our Company or any of our subsidiaries or an associate of any of them and a connected person shall not knowingly sell Shares to our Company.

### *(b) Reasons for repurchases*

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have a general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of our Company's net asset value and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

### *(c) Exercise of the Repurchase Mandate*

Exercise in full of the Repurchase Mandate, on the basis of [REDACTED] Shares in issue after completion of the [REDACTED] and the [REDACTED], could accordingly result in up to 400,000,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

---

## APPENDIX IV

## STATUTORY AND GENERAL INFORMATION

---

### *(d) Funding of repurchase*

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles of Association, the GEM Listing Rules and the applicable laws of the Cayman Islands.

Our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

### *(e) General*

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the GEM Listing Rules), has any present intention to sell any Shares to our Company if the Repurchase Mandate is exercised.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules and the applicable laws of the Cayman Islands.

If as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers and Share Repurchases (the "**Takeovers Code**"). Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase. Save as disclosed above, our Directors are not aware of any consequence that would arise under the Takeovers Code as a result of a repurchase pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the GEM Listing Rules).

No connected person (as defined in the GEM Listing Rules) of our Company has notified our Company that he has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

## APPENDIX IV

## STATUTORY AND GENERAL INFORMATION

### B. FURTHER INFORMATION ABOUT THE BUSINESS

#### 1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this document and are or may be material:

- (a) a share subscription agreement dated 21 April 2016 entered into among the Company, China Industrial Securities International Holdings and Dragon Power in respect of the [REDACTED], details of which are set out under the paragraph headed "History, reorganisation and group structure – Introduction of [REDACTED]" in this document;
- (b) a share subscription agreement dated 21 April 2016 entered into among the Company, China Industrial Securities International Holdings and Teda Holdings in respect of the [REDACTED], details of which are set out under the paragraph headed "History, reorganisation and group structure – Introduction of [REDACTED]" in this document;
- (c) a share subscription agreement dated 21 April 2016 entered into among the Company, China Industrial Securities International Holdings and Sushine in respect of the [REDACTED], details of which are set out under the paragraph headed "History, reorganisation and group structure – Introduction of [REDACTED]" in this document;
- (d) a share subscription agreement dated 19 April 2016 entered into among the Company, China Industrial Securities International Holdings and Supreme Faith in respect of the [REDACTED], details of which are set out under the paragraph headed "History, reorganisation and group structure – Introduction of [REDACTED]" in this document;
- (e) a share subscription agreement dated 21 April 2016 entered into among the Company, China Industrial Securities International Holdings and On Ride in respect of the [REDACTED], details of which are set out under the paragraph headed "History, reorganisation and group structure – Introduction of [REDACTED]" in this document;
- (f) a share subscription agreement dated 21 April 2016 entered into among the Company, China Industrial Securities International Holdings and Money Space in respect of the [REDACTED], details of which are set out under the paragraph headed "History, reorganisation and group structure – Introduction of [REDACTED]" in this document;
- (g) a share subscription agreement dated 21 April 2016 entered into among the Company, China Industrial Securities International Holdings and Hao Kang Financial in respect of the [REDACTED], details of which are set out under the paragraph headed "History, reorganisation and group structure – Introduction of [REDACTED]" in this document;

---

## APPENDIX IV STATUTORY AND GENERAL INFORMATION

---

- (h) a share subscription agreement dated 21 April 2016 entered into among the Company, China Industrial Securities International Holdings and Fusion International in respect of the [REDACTED], details of which are set out under the paragraph headed "History, reorganisation and group structure – Introduction of [REDACTED]" in this document;
- (i) a trademark licence agreement dated 6 June 2016 entered into between Industrial Securities (Hong Kong) and the Company in this document;
- (j) a deed of non-competition undertaking dated 28 September 2016 executed by Industrial Securities, Industrial Securities (Hong Kong) and China Industrial Securities International Holdings in favour of our Company, details of which are set out in the paragraph headed "Deed of non-competition" under the section headed "Relationship with Controlling Shareholders" in this document;
- (k) a [REDACTED] dated 28 September 2016 entered into among China Industrial International Trust Limited, the [REDACTED], the Joint Sponsors and the Company, details of which are set out under the section headed "Cornerstone Investors" in this document;
- (l) a [REDACTED] dated 28 September 2016 entered into among China Create Capital Limited, Zhang Wei, the [REDACTED], the Joint Sponsors, ABCI Capital Limited and the Company, details of which are set out under the section headed "Cornerstone Investors" in this document;
- (m) a [REDACTED] dated 26 September 2016 entered into among Harvest Capital Management Co., Ltd, the [REDACTED], the Joint Sponsors and the Company, details of which are set out under the section headed "Cornerstone Investors" in this document; and
- (n) the [REDACTED].

### 2. Intellectual Property Rights

#### Domain names

As at the Latest Practicable Date, our Group is the owner of the following domain name which is or may be material to the business of our Group:

Registered owner	Domain name	Expiry date
China Industrial Securities International Financial Group Limited	xyzq.com.hk	8 April 2018

## APPENDIX IV STATUTORY AND GENERAL INFORMATION

As at the Latest Practicable Date, our Group has licenses to use the following trademarks:

### Hong Kong Trademarks

Place of Registration	Registered Owner	The Mark	Trademark No.	Date of Registration	Expiry Date	Class
Hong Kong	Industrial Securities (Hong Kong)	 興證香港 INDUSTRIAL SECURITIES HONGKONG	303533616	11 September 2015	10 September 2025	36
Hong Kong	Industrial Securities (Hong Kong)	 興証國際金融 INDUSTRIAL SECURITIES INTERNATIONAL FINANCIAL GROUP	303533607	11 September 2015	10 September 2025	36
Hong Kong	Industrial Securities (Hong Kong)	 興証國際 INDUSTRIAL SECURITIES INTERNATIONAL	303533599	11 September 2015	10 September 2025	36
Hong Kong	Industrial Securities (Hong Kong)	 興証國際控股 INDUSTRIAL SECURITIES INTERNATIONAL HOLDINGS	303533580	11 September 2015	10 September 2025	36
Hong Kong	Industrial Securities	興港通 興港通	302210859	2 April 2012	1 April 2022	36



---

**APPENDIX IV**

**STATUTORY AND GENERAL INFORMATION**

---

[REDACTED]

[REDACTED]

**2. Particulars of service agreements**

No Director has entered into any service agreement with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

**3. Directors' remuneration**

- (a) The aggregate amount of remuneration paid to our Directors by our Group in respect of the two years ended 31 December 2015 and the three months ended 31 March 2016 were approximately HK\$4,844,450, HK\$8,942,012 and HK\$2,150,277, respectively.
- (b) Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary benefits or bonus or other fringe benefits) for the year ending 31 December 2016 will be approximately HK\$5,555,457.16.

**4. Fees or commission received**

Save as disclosed in the paragraph headed "Total Commission and Expenses" in the section headed "[REDACTED]" in this document, none of our Directors or the experts named in the paragraph headed "Consents of experts" in this Appendix had received any agency fee or commissions from our Group within the two years preceding the date of this document.



## APPENDIX IV

## STATUTORY AND GENERAL INFORMATION

### 5. Related party transactions

Details of the related party transactions are set out under Note 34 to the Accountants' Report set out in Appendix I to this document.

### 6. Disclaimers

- (a) There are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between our Directors and any member of our Group;
- (b) None of our Directors or the experts named in the paragraph headed "Consents of experts" in this Appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) None of our Directors or the experts named in the paragraph headed "Consents of experts" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group taken as a whole;
- (d) Taking no account of Shares which may be issued pursuant to the exercise of the [REDACTED], none of our Directors knows of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the [REDACTED], have any interest in Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;
- (e) Save as disclosed in the paragraph headed "Disclosure of interests" in this Appendix, none of our Directors or chief executive of our Company has any interest or short position in our Shares, underlying Shares or debentures of our Company or any of our associated corporations (within the meaning of the SFO) which, once our Shares are listed on the Stock Exchange, will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which he will be taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listing Companies in the GEM Listing Rules, to be notified to our Company and the Stock Exchange; and

## APPENDIX IV

## STATUTORY AND GENERAL INFORMATION

- (f) So far as is known to our Directors, none of our Directors, their respective associates (as defined under the GEM Listing Rules) nor our Shareholders who is interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group.

### D. SHARE OPTION SCHEME

The Company has not adopted any share option scheme.

### E. OTHER INFORMATION

#### 1. Litigation

As at the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened against any member of our Group.

#### 2. Joint Sponsors

The Joint Sponsors have, on behalf of our Company, made an application to the [REDACTED] for the [REDACTED] of and permission to deal in our Shares in issue and to be issued as mentioned herein and our Shares falling to be issued pursuant to the exercise of the [REDACTED].

Haitong International Capital Limited has confirmed to the Stock Exchange that it satisfies the independence test as stipulated under Rule 6A.07 of the GEM Listing Rules. China Industrial Securities International Capital Limited has confirmed to the Stock Exchange that it is not independent of our Company as it is a wholly-owned subsidiary of our Company. The total amount of fees payable to the Joint Sponsors by our Company for sponsoring the [REDACTED] is HK\$6 million.

#### 3. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately HK\$39,537.5 and are payable by our Company.

#### 4. Promoter

Our Company has no promoter for the purpose of the GEM Listing Rules.

---

## APPENDIX IV STATUTORY AND GENERAL INFORMATION

---

### 5. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this document:

<b>Name</b>	<b>Qualifications</b>
China Industrial Securities International Capital Limited	Licensed corporation under the SFO to carry on Type 1 (Dealing in Securities) and Type 6 (Advising on Corporate Finance) regulated activities
Haitong International Capital Limited	Licensed corporation under the SFO to carry on Type 6 (Advising on Corporate Finance) regulated activity
Deloitte Touche Tohmatsu	Certified Public Accountants
Ogier	Legal advisers on Cayman Islands laws

### 6. Consents of experts

Each of China Industrial Securities International Capital Limited, Haitong International Capital Limited, Deloitte Touche Tohmatsu and Ogier has given and has not withdrawn its written consent to the issue of this document with the inclusion of its reports and/or letter and/or opinion and/or valuation certificate and/or summary thereof (as the case may be) and/or reference to its name included herein in the form and context in which it is respectively included.

### 7. Binding effect

This document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

### 8. Taxation of holders of Shares

#### (a) *Hong Kong*

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

#### (b) *Cayman Islands*

Under the present laws of the Cayman Islands, there is no stamp duty payable in the Cayman Islands on transfers of Shares.

## APPENDIX IV

## STATUTORY AND GENERAL INFORMATION

### *(c) Consultation with professional advisors*

Intending holders of our Shares are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in our Shares. It is emphasised that none of our Company, our Directors or other parties involved in the [REDACTED] accepts responsibility for any tax effect on, or liabilities of holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

### **9. No material adverse change**

Our Directors confirm that there has not been any material adverse change in the financial trading position or prospects of our Group since 31 March 2016 (being the date to which the latest audited consolidated financial statements of our Group were made up) and up to the date of this document.

### **10. Miscellaneous**

- (a) Within the two years immediately preceding the date of this document:
  - (i) save as disclosed in this document, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration than cash;
  - (ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company or any of our subsidiaries and no commission has been paid or is payable in connection with the issue or sale of any capital of our Company or any of our subsidiaries;
  - (iii) no commission has been paid or is payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any of our Shares or shares of any of our subsidiaries; and
  - (iv) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.
- (b) Neither our Company nor any of our subsidiaries has issued or agreed to issue any founders shares, management shares, deferred shares or any debentures.

## APPENDIX IV

## STATUTORY AND GENERAL INFORMATION

- (c) Save as in connection with the [REDACTED], none of the parties listed in the paragraph headed "Consents of experts" in this Appendix:
  - (i) is interested legally or beneficially in any securities of our Company or any of our subsidiaries; or
  - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of our Company or any of our subsidiaries.
- (d) The Hong Kong register of members of our Company will be maintained in Hong Kong by [REDACTED]. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Company's share register in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to ensure our Shares to be admitted into [REDACTED] for clearing and settlement.
- (e) There has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this document.
- (f) No company within our Group is presently listed on any stock exchange or traded on any trading system.
- (g) We have no outstanding convertible debt securities.
- (h) Our Directors have been advised that, under the laws of the Cayman Islands, the use of a Chinese name pre-approved by the Registrar of Companies in the Cayman Islands by our Company in conjunction with our English name does not contravene the laws of the Cayman Islands.
- (i) The English text of this document shall prevail over the Chinese text.

### 11. Bilingual Document

The English language and Chinese language versions of this document are being published separately, in reliance upon the exemption provided in section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

---

**APPENDIX V**

**DOCUMENTS DELIVERED TO THE [REDACTED]  
AND AVAILABLE FOR INSPECTION**

---

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this document registered by the Registrar of Companies in Hong Kong were copies of the **WHITE**, **YELLOW** and **GREEN [REDACTED]**, the written consents referred to in the paragraph headed "Consents of experts" in Appendix IV to this document, and copies of the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix IV to this document.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of King & Wood Mallesons on 13th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this document

- (i) the Memorandum and the Articles of Association;
- (ii) the Companies Law;
- (iii) the accountants' report on the historical financial information of the Group for the two years ended 31 December 2014 and 2015 and the three months ended 31 March 2016 from Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this document;
- (iv) the audited consolidated financial statements of our Group for the two years ended 31 December 2014 and 2015 and the three months ended 31 March 2016;
- (v) the assurance report on the unaudited pro forma financial information of our Group from Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this document;
- (vi) the letter prepared by Ogier summarising certain aspects of the Companies Law as referred to in Appendix III to this document;
- (vii) the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix IV to this document;
- (viii) the rule of the Employees Share Participation Scheme;
- (ix) the written consents referred to in the paragraph headed "Consents of experts" in Appendix IV to this document; and
- (x) the service agreements referred to in the paragraph headed "C. Further Information about Substantial Shareholders, Directors and Experts – 2. Particulars of service agreements" in Appendix IV to this document.