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## RISK FACTORS

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*Potential investors should carefully consider 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 our business, results of operations, financial conditions and prospects. The trading price of the Shares could decline due to any of these risks.*

### **RISKS RELATING TO THE BUSINESS AND OPERATIONS OF OUR GROUP**

#### **Volatility in the performance of the financial markets could materially and adversely affect our business, results of operations and prospects**

Our business is dependent on the performance of the local and global financial markets. The Hong Kong financial markets are directly affected by adverse changes in general economic or financial conditions of the global financial markets such as changes in investors’ sentiment, perception and confidence in the financial markets and inflation, market volatility, fluctuations in trading volume or funding availability, which would materially and adversely affect our securities broking services, financing services and asset management services. There is no assurance that the local or global financial market conditions would not change suddenly or dramatically, which are beyond our control, and may lead to a prolonged period of sluggish market activities which would in turn have a material and adverse impact on our business and operating performance. The Hang Seng Index hit a record high of 33,484 at the end of January 2018 before sliding to a seven-week low of 29,129 in February 2018. The Hang Seng Index ended the first quarter of 2018 at 30,093.38. For further information, please refer the section headed “Industry Overview” in this document.

Recent developments in the United States under its new leadership, the impact of the contemplated exit of the United Kingdom from the European Union and the rising tension between the Democratic People’s Republic of Korea and the United States, have further intensified uncertainties in the global economy. In addition, changes in social, political, regulatory and economic conditions, laws and policies regulating development and investment in financial markets such as the PRC and the United States may adversely affect the stability of the global financial markets as a whole, significantly reduce global market liquidity and restrict the ability of market participants to operate in certain financial markets. Any of these factors could depress economic activities. Unfavourable or uncertain economic and market conditions could adversely affect investor confidence and in turn result in decline in securities trading and finance related activities, which may materially and adversely affect the revenue from our business activities.

Unfavourable financial or economic conditions and market volatility may also reduce the value of our financial assets at fair value through profit or loss. As a result, our revenue and profitability may fluctuate and there is no assurance that we will be able to maintain our historical results in times of difficult or unstable economic conditions. Our historic profit levels should not be relied upon as an indication of our future financial performance.

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**We rely heavily on the BSS to execute our securities trading orders, any failure of the BSS, our trading system and/or disruption to the communication between the BSS and our trading system may have a material adverse effect on our business, results of operations and prospects**

We rely on the BSS to execute and process our clients’ instructions accurately and promptly. The BSS and our trading system processes a large number of transactions simultaneously during peak periods. Our connection to the BSS is provided by a vendor recognised by the Stock Exchange. The BSS may be vulnerable to disruptions such as computer viruses, cyber-attacks and spam attacks leading to data corruption and interruptions, delay or cessation in executing clients’ trading instructions which could have a material adverse effect on our business, results of operations and prospects operation. Any cyber-attack to our trading system may also jeopardise the security of stored confidential information (such as client data or trading records) and cause losses to us. In the event of a system failure of the BSS or our trading system and / or disruption to the communication between the BSS and our trading system, the client instructions will have to be transacted through the disaster recovery site which we use as back up and may lead to a delay in executing clients’ instructions.

**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**

Our business operations were carried out in Hong Kong during the Track Record Period, the results of operations and prospects are highly susceptible to any development of change in government policies, as well as economic, social, political and legal development in Hong Kong. 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 change in the local economic, social and political environment, which is beyond our control, may lead to prolonged period of sluggish market activities which would in turn have material adverse impact on our business.

**We are subject to extensive regulatory requirements. Non-compliance with such requirements could cause us to incur fines, restriction on our activities or even suspension or revocation of some or all of our licences for carrying on our business activities**

The Hong Kong financial services industry is highly regulated. Changes in laws, rules, regulations, codes and guidelines in relation to the regulatory regime for the financial services industry, including but not limited to, the SFO, the Companies Ordinance, the FRR, the Listing Rules, the GEM Listing Rules, the Stock Exchange Trading Rules and Takeovers Code might result in an increase in our cost of compliance, or a restriction on our business activities. Any failure to comply with the applicable laws, rules, regulations, codes and guidelines from time to time, might result in penalties, suspension or revocation of some or all of our licences that are mandatory for carrying on our business activities. Accordingly, our business operations and financial results might be materially and adversely affected.

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In addition, we are required to be continuously licensed with the relevant regulatory authorities including without limitation, as a licensed corporation under the SFO. As a licensed corporation we must ensure continuous compliance with all applicable laws, rules, regulations, codes and guidelines, as well as satisfy the SFC, the Stock Exchange and / or other regulatory authorities that we remain fit and proper to be licensed. Any change or tightening of the relevant laws, rules, regulations, codes and guidelines may materially and adversely affect our business operations.

We are also subject to regulatory inspections from time to time. If serious misconducts are revealed as a result of the inspections, the SFC may conduct 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, our Directors, Responsible Officers or Licensed Representatives may have a material and adverse impact on our business operations and financial results. In addition, we may be subject to SFC inspections and investigations that subject to statutory secrecy obligations under the SFO from time to time whereby we are not permitted to disclose details before the inspection or investigation end.

We had been subject to certain non-compliances, disciplinary actions and inspection by the SFC in the past, including: (i) breach of Securities and Futures (Client Securities) Rules - Victory Securities (HK) had in August 2003 pledged securities belonging to its cash clients to its banks without client knowledge and without obtaining their prior approval; (ii) SFC limited scope reviews conducted in or around September 2005, February 2007, December 2012 and December 2017 identified deficiencies, which required certain recitification measures; and (iii) SFC investigation - Victory Securities (HK) had posted on its website during or around May 2011 to October 2012 certain information on two collective investment schemes in contravention of sections 103 and 107 of the SFO. For details of the above non-compliance, disciplinary and inspection actions, please refer to the sub-section headed “Business — Non-compliance, disciplinary and inspection actions” in this document.

There is no assurance that there will not be any investigations taken against us or any of our Responsible Officers /Licensed Representatives and /or our Directors or persons concerned and /or involved in our management in the future.

### **Risk associated with brokerage services**

We derived substantial revenue from commission and brokerage income from our securities broking services. For the years ended 31 December 2016 and 2017, commission and brokerage income from our securities broking services amounted to HK\$20.2 million and HK\$35.4 million, respectively, representing 66.7% and 62.7% of our total revenue for the corresponding periods. While it is our strategy to continue to expand our business and diversify our service offerings, our securities broking service is expected to continue to be our main source of revenue.

Commission and brokerage income mainly depends upon the trading volume through our trading system (including our online trading platform). Similar to other broking and financial services firms,

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trading volume by investors in the stock markets as a whole may continue to be affected by factors such as changes in investors' sentiment, perception and confidence in the financial markets and inflation; market conditions; political conditions; natural disasters; riots and acts of war or terrorism.

Fluctuations in the trading volume by our clients through our trading system would result in reduced commission and brokerage income, and there is no assurance that we will be able to maintain or improve our relationship with our clients and they may terminate their respective relationship with us at any time. Our profit may be materially and adversely affected if any of our clients does not continue to use, or if any of them significantly reduces his or her or its use of our services.

Further, we plan to resume the futures brokerage business as part of our business strategies. Similar to our securities broking services, commissions and fees to be derived from the futures

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brokerage business are expected to depend, to a large extent, upon the trading volume through our trading system. Such trading volume by investors in the futures market may also continue to be affected by factors similar to those in the stock market. Therefore, fluctuation in the trading volume by our client through our trading system under our futures brokerage business may affect our brokerage commissions and fees income and cause material and adverse impact on our financial conditions and results of operations.

### **Risk of trading errors in processing transactions, system failure or cyber-attack**

During the course of providing securities broking services, we rely upon our ability to process and monitor 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 any trading errors such as errors made on taking client instruction, including but not limited to incorrect input of security name, quantity of the transaction or incorrect buy / sell order or incorrect input of client instruction or client account number. Any loss we suffered resulting from any of the aforesaid trading errors made by our licensed employees or self-employed account executives may not be indemnified by the responsible person and we may have to bear the losses resulting from those trading errors. Hence, in the event that the trading errors are not effectively prevented or controlled, or rectification measures could not cover the loss incurred, our financial results would be materially and adversely affected.

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

Our operations depend upon 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 computer systems and networks. The occurrence of one or more of such events could jeopardise the confidentiality of information processed, stored and transmitted through our computer systems and networks or otherwise disrupt our operations, which could result in reputational damage, disputes with clients and relevant parties, and financial losses.

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 beyond our control, events 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 external brokers or other financial intermediaries that we use to facilitate

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securities transactions. Any operational failure or termination of the external brokers or other financial intermediaries that we use could adversely affect our ability to execute transactions, service our clients and manage our exposure to risk, which could lead to a material adverse effect on our business, results of operations and prospects.

**We rely on a limited number of external brokers to continuously provide access to overseas securities trading to our clients. Our commission and volume discount from such external brokers are derived from a limited number of high volume day trader clients. Our revenue and results of operation will be materially and adversely affected if our existing external brokers cease cooperating with us or our clients conducting overseas securities trading cease such trades**

We rely on a limited number of external brokers for the supply for overseas securities trading platforms to our clients. Our commission and volume discount derived from the services provided by those external brokers accounted for 18.5% and 21.5% of our brokerage services revenue for the years 2016 and 2017, respectively. During the Track Record Period, overseas securities trading conducted by our high volume day trader clients accounted for 76.5% and 85.5% of commission and volume discount from our external brokers.

Should the external brokers fail to comply with the terms of our contracts with them or any regulatory requirements, they might fail to handle instructions from our clients in a timely manner or at all. Upon any failure by our existing external brokers to discharge their obligations, we may not be able to find other suitable companies as replacements on a timely basis, we may not be able to provide access to those external securities trading platforms continuously and / or at the same fee charge level to our clients. Or our clients may cease to conduct their overseas securities trading through us. Upon the occurrence of any of the above, our business, financial performance and operations may thereby be materially and adversely affected.

**We may be subject to substantial risks if our clients or our counterparties default in payments made to us**

Some of our businesses are subject to the risk that a client or counterparty may fail to perform its contractual obligations. Any material non-payment or non-performance by a client or counterparty could adversely affect our financial position, results of operations and cash flows. During the course of provision of securities broking services, our clients are required to settle their securities transactions within T+2. If our clients do not have sufficient cash to complete, we are required to settle the same with CCASS on behalf of the clients. As such, our liquidity position will be materially and adversely affected. During the course of overseas securities trading, we place client money with our external brokers. If our external brokers default in payments to be made to us, we are required to settle the same with our clients. If our current liquidity sources are insufficient to repay the trade payables, we may seek to sell additional equity or debt securities or obtain credit facilities that would result in a dilution to our Shareholders' interest. Also, we cannot assure you that external borrowings will be available in amounts or on terms acceptable to us, or at all. Our business, liquidity and financial condition may be materially and adversely affected.

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**Our financing services could be materially and adversely affected by the decline in market value of the collateral, the suspension of the collateral, the change in lending ratio for the collateral, the increase in collateral concentration or client’s default in repayment**

For our financing services, we provide margin financing to purchase securities listed on the Stock Exchange and short-term IPO financing for subscription of shares in connection with IPOs. We also generate interest income from our clients. Interest income generated from financing service accounted for 18.8% and 12.9% of our total revenue for the years 2016 and 2017, respectively. As at 31 December 2017, our outstanding margin loans provided to our clients amounted to HK\$96.2 million.

The amount of margin loan provided to a client must be maintained within the loan-to-value ratio of the client’s collateral. In the event of adverse movement in the prices of the client’s collateral, a suspension of trading of the collateral or an increase in collateral concentration, we may make a margin call requesting the client to deposit additional funds, sell the collateral or pledge additional collateral to top up the value of his margin account.

In the event that a client is unable to meet a margin call, we are entitled to dispose of the collateral and apply the sale proceeds toward repayment of the outstanding balance use the sale proceeds thereof towards repayment of the margin loan. There is no assurance that the value of the collateral and that the proceeds generated from the disposal of the collateral are sufficient to cover all outstanding balances or that they may be disposed in a timely manner or at all in the case where the collateral has been suspended from trading at a time when the margin call is made. We would suffer a loss if we fail to recover the shortfall from our clients. Our business and financial performance will be materially and adversely affected if our clients fail to cover the shortfalls.

Further, in respect of the futures brokerage business which is to be resumed as part of our business strategies, the Futures Exchange sets out the minimum margin deposit required for trading of each futures contract and clients of our Group are required to maintain at all times the minimum margin deposit which may vary from time to time as determined by the Futures Exchange. When a client is unable to meet a margin call, our Group will close 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 our Group may suffer a loss. Our business and financial performance may be materially and adversely affected as a result.

We have entered into financing agreements with certain licensed banks to facilitate our margin financing services. In the event our lenders change the lending ratio for certain collaterals, adjust the scope of acceptable collaterals or reject the repledging of collaterals by us, we may not be able to provide margin financing to our clients in a timely manner or at all which could materially and adversely affect our business, results of operations and prospects.

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

We generate interest income from our financing services. 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 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 the financing segment would increase. There is no assurance that the Hong Kong 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. If our source of funding changes or if interest rates charged by our lenders (i.e. Hong Kong Inter-Bank Offered Rate (“HIBOR”)) increase significantly against the Hong Kong Prime Rate, 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 materially and adversely affected.

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

Annual asset management fees are primarily calculated based on the amount of assets under our management and performance fees as a percentage of the increase in net asset value of AUM. During the Track Record Period, our revenue generated from our asset management services for the years 2016 and 2017 amounted to HK\$0.7 million and HK\$2.2 million, respectively. In the event our AUM decreases due to poor performance of our asset management services or our clients withdraw their assets our business operations and financial results may be materially and adversely affected.

### **We have guaranteed the performance of AUM for certain clients, and poor performance will have a significant adverse effect on our financial results**

During the Track Record Period, we provided certain clients with “loss protection” on their discretionary accounts. Pursuant to the asset management agreement, we guaranteed that such accounts with “loss protection” shall receive a redemption amount equal to the initial investment amount. As at 31 December 2017, we provided “loss protection” to two clients with an initial investment amount of HK\$13.0 million, which are expected to expire on 23 April 2018 and 18 August 2018, respectively. For details regarding our “loss protection” discretionary accounts, please refer to “Our Business Model — (III) Asset Management Services” under the section headed “Business” and “Description and Comparison of Principal Items in the Consolidated Statements of Profit or Loss — Other Operating Expenses” under the section headed “Financial Information” in this document.

In the event that the value of the portfolio under those accounts with “loss protection” decreases further, we may need to make additional provisions for loss on guaranteed contracts with clients. This may have a significant adverse effect on our financial results.

### **We rely on applicants of the Capital Investment Entrant Scheme (“CIES”) as a source of clients and the continued suspension of the CIES may materially adversely affect our future results of operations**

We rely substantially on clients who are applicants of the CIES of Hong Kong. Also, the majority of our asset management clients are CIES applicants. Under the CIES, applicants who meets certain criteria and have the financial means to invest in Hong Kong may apply to be a permanent resident



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after seven years of continuous stay and maintaining their capital commitment in Hong Kong as required in the CIES. There is no assurance that our CIES applicant clients will maintain their assets with us or continue to trade through us after the seven years requirement expires. CIES applicants may withdraw their capital commitment from one asset management firm and move it to another asset management firm under the rules of the CIES.

Further, on 14 January 2015 the government of Hong Kong announced that it would suspend acceptance of applications made under the CIES with effect from 15 January 2015. As a transitional measure, the government of Hong Kong further announced that subject to the applicant meeting the other eligibility criteria under the CIES, applications will be accepted from applicants who had made investments of no less than HK\$10 million within the six months immediately before the suspension date and such applications were made within six months of the investment. If the suspension of the CIES continues and there are no new engagements from CIES applicants for our services, we may not be able to grow or expand our client base. Further, as our existing CIES applicant clients fulfil their seven years commitments, they may withdraw their assets from us or cease trading through us once they obtain permanent residencies and are no longer subject to capital commitments.

There is no assurance that we are able to secure new engagements for our asset management services at levels similar to those we had during the Track Record Period when the government of Hong Kong was still accepting new applications for the scheme, and there is also no assurance that the engagements we successfully secure can be completed. In addition, increasing competition from other securities firms, banks, insurance companies and other competitors could prevent us from maintaining or increasing our client base. If we fail to engage with new clients, we may not be able to take advantage of potential benefits, such as economies of scale and investment strategies with larger capital requirements, or we may have to reduce our brokerage commission rate to attract new clients, and our results of operations and prospects would be materially and adversely affected.

### **The demand for our placing service is subject to various risks and historic placing commission amounts and rates should not be relied upon as an indication of future performance**

We began providing placing service for debt securities in 2017 and placing commission accounted for 8.4% of our total revenue for the year 2017. For details regarding our placing services, please refer to “Our business model — Securities broking services — (b) Placing services” under the section headed “Business” and “Recent development and material adverse change” under the section headed “Financial Information” in this document

Depending on the terms of the particular placing agreements, our placing service is conducted on a best effort basis. If the securities are undersubscribed or if the market conditions are volatile, the fundraising exercise may not be completed in full or may be cancelled as a result. This would lead to a reduction in our commission or we may even receive no commission at all.

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Furthermore, the placing commission we generated directly related to the number of placing exercises we are involved in and/or the amount the issuer clients intend to raise. Our Directors consider that this would be subject to external factors, which are beyond our control, such as the number and the size of placing transactions in the market, and the prevailing financial market environment. There is no assurance that the performance of our placing business will not be adversely affected by such external factors.

Additionally, there is no guarantee that our existing issuer clients will provide us with new placing opportunities or that we will be able to secure new issuer clients. During the Track Record Period, our placing commission income was derived from two listed issuer clients who do not have any long-term business commitments with us. Our relationships with these issuer clients are non-exclusive and at arm’s length. There is no assurance that we will be able to secure new issuer clients due to the nature of the business. If we are unable to develop new placing opportunities, there will be a material adverse effect on our business, financial condition and/or results of operations.

**We may incur losses or fail to realise the anticipated returns from our financial assets at fair value through profit or loss or investment property as a result of unfavourable market conditions or our failure in predicting the performance of the market**

The value of our financial assets at fair value through profit or loss and investment property are subject to market volatility, and subsequently, the profitability of these investments generally correlates with the performance of the Hong Kong, the PRC and overseas securities markets and economies. There is no assurance that the value of our financial assets at fair value through profit or loss or investment property will increase in the future.

Further, the value of our financial assets is marked to market. Unrealised losses will be recognised if the carrying value of the financial assets is lower than their 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.

We recorded a non-recurring revaluation gain amounting to HK\$4.5 million for the year 2017 on investment properties, which was capital in nature. The value of our investment property is subject to change. If we record revaluation deficit on our investment property in future, our results of operations could be materially and adversely affected.

The value of our financial assets at fair value through profit or loss or investment property primarily depends on our investment decisions and judgment which are subject to management discretion and assumptions. If we fail to evaluate investment products properly or our forecasts of the market do not conform to actual changes in market conditions, we may suffer material losses. Such material losses could materially and adversely affect our business, financial conditions and results of operations.

**We may fail to maintain our arrangement with those self-employed account executives, and if material part of our existing self-employed account executives stop cooperation with us, our financial results may be materially and adversely affected**

Securities broking services revenue represented our largest income source during the Track Record Period, which in total accounted for HK\$23.8 million and HK\$46.9 million for the years 2016

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and 2017. We paid brokerage commission of HK\$1.5 million and HK\$1.5 million to self-employed account executives, which accounted for 39.8% and 21.8% of our total commission expenses during the Track Record Period, respectively. As at 31 December 2016 and 2017, we had 25 and 31 account executives, respectively. If we fail to maintain our arrangement with those self-employed account executives, or if material part of the existing self-employed account executives have ceased cooperation with us, our financial result would be materially and adversely affected. For details regarding our cooperation with those self-employed account executives, please refer to “Our business model — (i) Securities broking services — (a) Brokerage services” under the section headed “Business” in this document.

### **We cannot assure you that we will be able to maintain or improve our relationship with our clients**

During the Track Record Period, we derived 24.5% and 24.5% of our total revenue from our top five largest clients, respectively. These major clients are independent of and not connected with the Directors, chief executive or substantial shareholders of our Company or any of its subsidiaries, or any of their respective associates. The continuity of business with these major clients will depend on the maintenance of a good business relationship between these major clients and us. We cannot assure you that we will be able to maintain or improve our relationship with our clients and they may terminate their respective relationship with us at any time. Our profit may be adversely affected if any of our major clients does not continue to use, or if any of them significantly reduces his or her use of our services.

### **Our internal controls may not fully protect us against risks inherent in our business**

Our internal control systems require constant monitoring and updating by our Directors and senior management with the change in business and regulatory environment. We rely on our internal control systems and procedures to record, process, summarise and report financial and other data in an accurate and timely manner to identify any reporting errors and non-compliance with relevant laws, rules, regulations, codes and guidelines. Any deficiencies in our internal control systems and procedures may materially and adversely affect our business and prospects. There is no assurance that our internal control systems are adequate or effective. Any failure to locate and address any internal control matters and deficiencies on time may result in investigations and / or disciplinary actions taken against us and / or our employees. While we put in place internal control policies, there is no assurance that they will be properly implemented or are adequate and effective for the continuously changing business environment.

For details of our current internal control for each of our business segments, please refer to the sub-section headed “Business — Risk management and internal control” in this document.

### **Our revenue and profitability are difficult to predict**

Our revenue is mainly generated on a transaction-by-transaction basis. Furthermore, our revenue is also subject to the size of transactions and the scope of services being rendered. Given the nature of our business, our revenue and profitability are difficult to predict. Therefore, our future financial

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results may be subject to fluctuations depending on our success in entering into new transactions. There is no assurance that we will be able to attain transaction volume at a level similar to those during the Track Record Period, and that the transaction we procure will be completed due to the market conditions and circumstances of each transaction.

### **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**

We plan to engage in the trading of debt and equity securities through proprietary trading for our own account. We also plan to allocate [REDACTED] or [REDACTED] of the [REDACTED] from the [REDACTED] for development of our proprietary trading business. We did not conduct any proprietary trading business during the Track Record Period. We will actively seek appropriate investment opportunities, which we expect will contribute to our revenue under this segment for the year ending 31 December 2018.

Our proprietary trading activities will be subject to market volatility, and as such, the profitability of these investments will generally correlate with the performance of the Hong Kong, the PRC and overseas securities markets. We cannot assure you that our proprietary trading business will be profitable in the future. Further, the value of our financial assets is marked to market. Unrealised losses will be recognised if the carrying value of the financial assets is lower than their 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 information on our policy and procedures governing our proprietary trading activities, please refer to the sub-section headed “Business — Risk management and internal control — Risk management relating to our financing business” in this document. For investments in financial products, if we fail to evaluate investment products 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 losses could materially and adversely affect our business, financial conditions and results of operations.

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

As at 31 December 2016 and 2017, our total indebtedness amounted to HK\$57.0 million and HK\$47.5 million, respectively. Such amount represents the amount we have drawn under the banking facilities of HK\$196.5 million and HK\$190.0 million as at 31 December 2016 and 2017, respectively, made available to us. Please refer to the sub-section headed “Financial information — Indebtedness” in this document 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;

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- 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.

### **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.

### **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. Please refer to the sub-section headed “Regulatory overview — Regulations and supervision of the securities business in Hong Kong” in this document 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

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new services. 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, licences 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.

### **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 self-employed account executives and us or (v) our clients and our employees or self-employed account executives. Please refer to the sub-section headed “Business — Risk management and internal control — Conflict of interest” in this document 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.

### **Implementing our future plans will have a significant impact on our future results**

We have set out our future plans in the section headed “Business objectives and future plans” in this document. Whether our future plans can be implemented successfully may be beyond our control and future events may affect the implementation of our expansion plans, such as general market trends and conditions.

In addition, our future plans involve the expansion of our financing, asset management, entering the corporate finance advisory business and resuming the futures brokerage business, the implementation of which will increase our costs and expenses. If we are unable to increase our revenue from future plans, our financial performance may be materially and adversely affected.

### **We may not be able to implement our future plans successfully**

Our future business plans are based on our Directors’ existing intentions. These business plans and intentions are based on assumptions as to the occurrence of certain future events, which may or

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may not materialise, and the real situation might differ materially. Furthermore, our future business plans may be hindered by other factors beyond our control, such as competition within the financial services industry and from other securities brokers. Therefore, there is no assurance that any of our future business plans will materialise, or result in the conclusion or execution of any agreement within the planned time frame, or that our objectives will be fully or partially accomplished. For details of our future plans, please refer to the sub-section headed “Business — Business strategies” in this document.

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

We are subject to the risk of fraud, illegal act or misconduct committed by our Directors, licensed employees, self-employed 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, licensed employees, self-employed 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, rules, regulations, codes and guidelines 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, rules, regulations, codes and guidelines require us, among other things, to carry out client due diligence and to report suspicious transactions to the applicable regulatory authorities. Our policies and procedures may not detect and prevent the use of our operations for money laundering activities and other illegal or improper activities, fraud or other misconduct by Directors, licensed employees, self-employed 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 materially and adversely affect our business, results of operations and reputation.

### **Our business depends on the continuing efforts of our executive Directors, Responsible Officers, key senior management and personnel and the loss of any of them may negatively affect our operation**

Our business and future success, to a large extent, are attributable to the continued commitment of our executive Directors, Responsible Officers and senior management team, and in particular, Ms. Kou and Mr. Chiu. There is no assurance that these key executives or personnel will not voluntarily terminate their employment with us. The loss of any of our key executives, Responsible Officers or

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personnel could be detrimental to the ongoing success of our operations. Our continued success will also depend on our ability to attract and retain qualified personnel in order to manage our existing operations as well as our future growth. We may not be able to successfully attract, assimilate or retain the personnel we need and this could negatively impact on our ability to expand our business effectively.

As at the Latest Practicable Date, we had three Responsible Officers. Under the licensing requirements of the SFO, we must at all times maintain at least two Responsible Officers for each regulated activity. In case any two of the Responsible Officers resign simultaneously, we will breach the relevant licensing requirements. This may result in suspension of the licenses and effectively suspending our business operations. In such event, our business operations and financial results will be materially and adversely affected.

### **We may fail to effectively implement the offer of new services**

As the financial markets continue to evolve, we continue to respond by expanding our business, innovating new services and adjustments towards our business strategies accordingly. New business initiatives often result in new services or transactions with individuals or entities that are not our traditional clients or counterparties. If we fail to effectively implement new services to expand our client base or counterparties, our operation expenses may increase while at the same time there may be no corresponding increase or even with a decrease in our revenue, as a result of which our business and results of operations may be adversely affected.

Further, these business activities would 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. If we fail to implement sufficient controls to manage such risks, it may lead to disciplinary actions being taken against us, our Directors, Responsible Officers or Licensed Representatives which may have an adverse impact on our business operations and financial results.

## **RISKS RELATING TO OUR INDUSTRY**

### **Licensed corporations are required to maintain a high level of liquidity**

Pursuant to the FRR, a licensed corporation shall maintain liquid capital which is not less than the required level at all times. Victory Securities (HK) is required to maintain liquid capital of the higher of HK\$3.0 million and the basic amount, which in relation to a licensed corporation means 5% of the aggregate of (a) its adjusted liabilities (as defined in the FRR); and (b) 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 (c) 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



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requirement. We must maintain a high level of liquidity at all times to comply with the FRR. Failure to meet the above requirement may cause the SFC to take appropriate action against us, which may adversely affect our operations and performance. During the Track Record Period, there had been no failure to comply with the FRR requirements.

### **We may be unable to successfully compete with other financial institutions that compete with us for the same clients**

As at 31 December 2017, 669 Stock Exchange Trading Rights holders were registered with HKEx, including 622 trading Stock Exchange Participants, 32 non-trading Stock Exchange Participants and 15 non-Stock Exchange Participants. We compete in an industry where there are competitors which are large multi-national financial institutions such as banks and investment banks with global network and local presence in Hong Kong and we face local competition from branded medium-sized and well-established financial services firms, as well as other small-sized financial services firms, which offer similar range of services as ours. We may be unable to compete effectively and successfully with these competitors as they may have substantially more financial resources than us. If we are unable to effectively compete with them, our business operations and financial results may be materially and adversely affected.

### **Changes in tax laws and regulations may adversely affect our business**

We carry out our business operations in Hong Kong, under the current Hong Kong laws and regulations, our profit is subject to taxation in Hong Kong. In addition to Hong Kong, we may also be subject to the taxation in other jurisdiction(s) such as United States or the PRC as we trade or invest in the financial products issued in such jurisdiction(s). There is no assurance that the current tax laws and regulations will not be revised or amended in the future. Any revision or amendment in the tax laws and regulations may have an adverse impact on our business operations and financial results.

### **The future occurrence of force majeure events, acts of terrorism, outbreaks of contagious diseases may materially and adversely affect our business, financial condition and results of operations**

Any future occurrence of force majeure events, natural disasters or outbreaks of epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, swine influenza or Ebola virus, may materially and adversely affect our business, financial condition and results of operations. Moreover, Hong Kong has experienced natural disasters such as typhoons and floods in the past few years. Any future occurrence of severe natural disasters in Hong Kong may materially and adversely affect its economy and therefore our business. There is no assurance that any future occurrence of natural disasters or outbreaks of epidemics and contagious diseases, or the measures taken by Hong Kong, PRC or the United States or other countries in response to such disasters or diseases, will not seriously disrupt our operations or those of our clients, therefore resulting in a material adverse effect on our business, financial condition and results of operations.

In addition, acts of war and terrorism may cause damage or disruption to us or our employees, facilities, the securities markets, or clients, any of which may materially and adversely affect our financial condition and results of operations. Potential war or terrorist attacks may also cause uncertainty and impair our business in ways that we cannot currently predict.

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### RISK RELATING TO THE [REDACTED] AND THE SHARES

#### **Our Controlling Shareholders have substantial influence over us and their interests may not be aligned with the interests of our Company and other Shareholders**

Upon completion of the [REDACTED], our Controlling Shareholders will continue to have the ability to exercise a controlling influence on our management, policies and business by controlling the composition of the Board, determining the timing and amount of our dividend payments, approving significant corporate transactions, including mergers and acquisitions, approving our annual budgets and taking other actions that may require our Shareholders’ approval.

In addition, the interests of our Controlling Shareholders may not necessarily be aligned with that of our Company and other Shareholders. Although we have implemented internal control measures, there is no assurance that if a conflict of interest arises, our Controlling Shareholders will act in the best interests of our Company or that any conflict of interest will be resolved in our favour. At times, the interests of our Controlling Shareholders may not be consistent with the interests of our other Shareholders. There is no assurance that our Controlling Shareholders will always take actions that will benefit our other Shareholders.

#### **Sale or perceived sale of substantial amounts of the Shares in the public market after the [REDACTED] could adversely affect the prevailing market price of the Shares**

The Shares beneficially owned by our Controlling Shareholders are subject to certain lock-up periods under the GEM Listing Rules and further undertakings in favour of us and/or the [REDACTED]. There is no assurance that our Controlling Shareholders, whose interests may be different from those of other Shareholders, will not dispose of their Shares following the expiration of the lock-up periods. Sale of substantial amounts of the Shares in the public market, or the perception that such sale may occur, could adversely affect the prevailing market price of the Shares. Our Controlling Shareholders may take actions with which you may not agree or which are not in our or our public Shareholders’ best interests.

Upon completion of the [REDACTED], our Controlling Shareholders will own [REDACTED] of the Shares in issue. Our Controlling Shareholders will therefore have significant influence over our operations and business strategy, and may have the ability to require us to effect corporate actions according to their own desires. The interests of our Controlling Shareholders may not always coincide with the best interests of other Shareholders. If the interests of any of our Controlling Shareholders conflict with the interests of other Shareholders, or if any of our Controlling Shareholders choose to cause our business to pursue strategic objectives that conflict with the interests of other Shareholders, our Company or those other Shareholders may be adversely affected as a result.

#### **There may be limited liquidity in our Shares and volatility in the price of our Shares on GEM and could result in substantial loss for investors purchasing our Shares in the [REDACTED]**

Our Shares have not been traded in an open market before completion of the [REDACTED]. The [REDACTED] may not serve as an indicator of the price of our Shares traded in GEM in the future. The [REDACTED] is the result of negotiation between us and the [REDACTED] (for themselves

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and on behalf of the [REDACTED]), and may be different from the market prices for our Shares after the [REDACTED]. There is no assurance that an active and liquid public trading market of our Shares will develop upon the [REDACTED] or if it does develop, that it may be sustained for any period of time after the [REDACTED]. The market price and trading volume of our Shares may fluctuate significantly and rapidly as a result of the following factors, among other things, some of which are beyond our control:

- variation in our results of operation;
- changes in securities analysts’ analysis of our financial performance;
- our announcement of significant acquisitions, dispositions, strategic alliances or joint ventures;
- addition or departure of our key personnel;
- fluctuations in market prices and trading volume of our Shares;
- our involvement in litigation;
- development of GEM;
- general economic and stock market conditions in Hong Kong.

All such factors may result in significant fluctuations in the market price and / or transactions volume of our Shares. There is no assurance that such changes will not occur.

### **We may require additional funding for future growth and our Shareholders’ interest may be diluted as a result of additional equity fund-raising**

We may be presented with opportunities to expand our business through acquisitions in the future. Under such circumstances, secondary issue(s) of securities after the [REDACTED] may be necessary to raise the required capital to capture these growth opportunities. If additional funds are raised by means of issuing new equity securities in the future to new and / or existing Shareholders after the [REDACTED], such new Shares may be priced at a discount to the then prevailing market price. Inevitably, existing Shareholders if not being offered with an opportunity to participate, their shareholding interest in our Company will be diluted. Also, if we fail to utilise the additional funds to generate the expected earnings, this could adversely affect our financial results and in turn exerts pressure to the market price of the Shares. Even if additional funds are raised by means of debt financing, any additional debt financing may, apart from increasing interest expense and gearing, contain restrictive covenants with respect to dividends, future fund raising exercises and other financial and operational matters.

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### **There is no assurance that we will declare or distribute any dividend in the future**

Any decision to declare any dividend would require the recommendation of our Board and approval of our Shareholders. Any decision to pay any dividend will be made having regard to factors such as our operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure and future development requirements, Shareholders’ interests and other factors which may deem relevant at such time. Any distributable profits that are not distributed in any given year may be retained and be made 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 operation. There is no assurance that we will be able to declare or distribute any dividend. Our future declarations of dividends will be at the absolute discretion of our Board.

### **RISKS RELATING TO STATEMENTS MADE IN THIS DOCUMENT AND FROM OTHER SOURCES**

#### **Certain statistics and facts in this document are derived from various official government sources and publications or other sources and have not been independently verified**

This document includes certain statistics and facts that are extracted from official government sources and publications or other sources. Whilst we believe that it is prudent for us to rely on such statistics and facts, there is no assurance that such statistics and facts are free from error or mistake. The statistics and facts from these sources have not been independently verified by us, our Directors, the Sole Sponsor, [REDACTED], or any of their respective directors, affiliates or advisers or any other party involved in the [REDACTED] and no representation is given as to their accuracy and completeness. Due to possible flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics from official government publications referred to or contained in this document may be inaccurate or may not be comparable to statistics produced for other economies and should not be relied upon. Furthermore, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to, or place on, such statistics or facts.

#### **Forward-looking statements contained in this document are subject to risks and uncertainties**

This document contains certain statements and information that are “forward-looking” and uses forward-looking terminology such as “anticipate”, “believe”, “could”, “expect”, “estimate”, “intend”, “may”, “plan”, “seek”, “should”, “will”, “would” or similar terms. Those statements include, among other things, the discussion of our growth strategy and expectations concerning our future operations, liquidity and capital resources. Investors of our Shares are cautioned that reliance on any forward-looking statements involves risks and uncertainties and that, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include, but are not limited to, those identified in this section, many of which are not within our control. In light of these and other uncertainties, the inclusion of forward-looking statements in this document should not be regarded as representations that our plans or objectives will be achieved and investors should not place undue

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reliance on such forward-looking statements. We do not undertake any obligation to update publicly or release any revisions of any forward-looking statements, whether as a result of new information, future events or otherwise. Please refer to the section headed “Forward-Looking Statements” in this document for further details.

**We strongly caution you not to place any reliance on any information contained in press articles, media coverage and / or research analyst reports regarding us, our industry or the [REDACTED]**

There may be press articles, media coverage and / or research analyst reports regarding us, our industry or the [REDACTED], which may include certain financial information, financial projections and other information about us that do not appear in this document. We have not authorised the disclosure of any such information in the press, media or research analyst reports. We do not accept any responsibility for any such press articles, media coverage or research analyst reports or the accuracy or completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this document is inconsistent or conflicts with the information contained in this document, we disclaim it. Accordingly, prospective investors should not rely on any such information. In making your decision as to whether to purchase our Shares, you should rely only on the financial, operational and other information included in this document.