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OVERVIEW

Founded in the early 1970s, we are a well-established integrated securities broker in the Hong Kong financial services industry. Leveraging over 40 years of history and industry experience, we have accumulated a loyal and diversified client base in Hong Kong and the PRC. As at 31 December 2017, 36.8% and 60.9% of our active accounts have been opened for more than ten and five years, respectively. Our services enable our clients to trade securities listed on the Stock Exchange, the Shanghai Stock Exchange, Shenzhen Stock Exchange as well as exchanges in Australia, Canada, Europe, Japan, Singapore, the United Kingdom and the United States, through us or platforms provided by respective external brokers accessible via our award winning multi-platform trading system. We also provide financing services and asset management services in Hong Kong to cater for our clients' specific needs. In recognition of our quality services, we have been awarded numerous awards including “Outstanding eCommerce Excellence Award 2017 (傑出電子商務大獎 2017)” by the Economic Digest (經濟一週), “The Most Diverse Services Securities Firm of 2016” (2016年最佳多元化服務證券商) by the Hong Kong Commercial Daily (香港商報) in 2017 and “The Best Global Trading Securities Award” (最佳環球投資券商大獎) by the Metro Awards for Banking & Finance Corporations (都市盛世銀行及金融服務企業獎) in 2015.

[REDACTED] Victory Securities (HK), our primary operating subsidiary, has become a China Connect Exchange Participant and a China Connect Clearing Participant, and we formally launched our Shanghai Connect and Shenzhen Connect services in November 2014 and December 2016, respectively. As at 31 December 2017, 154 and 151 out of 622 trading Stock Exchange Participants have obtained approvals to become China Connect Exchange Participants and China Connect Clearing Participants, respectively.

Our business activities are carried out through our wholly owned subsidiary Victory Securities (HK), which is licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 9 (asset management, under the condition that it shall not provide a service of managing a portfolio of futures contracts for another person) regulated activities under the SFO. Victory Securities (HK) holds two Stock Exchange Trading Rights and is a participant of the HKSCC. We did not engage in dealing in future contracts during the Track Record Period but plan to resume the futures brokerage business.

Our revenue was mainly generated from our securities broking services, which accounted for 78.8% and 83.2% of our total revenue for the years ended 31 December 2016 and 2017, respectively. A summary of our services in each business segment is set out as follows:

- **Securities broking services**

During the Track Record Period and up to the Latest Practicable Date, our securities broking service income is primarily derived from the provision of brokerage services to clients to trade securities listed on the Stock Exchange and eligible securities traded through the Shanghai Connect and Shenzhen Connect as well as enabling clients to trade securities listed on exchanges in Australia, Canada, Europe, Japan, Singapore, the United Kingdom, the United States and B shares in the PRC.

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Our multi-platform online trading system enables our clients to trade in securities listed in Hong Kong and overseas. We also provide placing services and ancillary services including scrip handling services, settlement services, account servicing, corporate-action-related services and certain other miscellaneous services.

- **Financing services**

We provide financing services to our clients. Generally, we provide margin financing and short-term IPO financing to our clients to facilitate them to purchase securities in the secondary market and apply for new shares in connection with IPOs respectively. In return, we derive interest income. We also generate interest income from our cash account clients on their overdue debit balance. For the years ended 31 December 2016 and 2017, respectively, 18.8% and 12.9% of our total revenue was derived from financing services.

- **Asset management services**

We offer asset management services on a discretionary basis to our high net worth clients who would like us to manage their portfolios on their behalf. We manage discretionary accounts and derive management fees and/or performance fees from our asset management services, which accounted for 2.4% and 3.9% of our total revenue for the years ended 31 December 2016 and 2017, respectively.

For further details of our services, please refer to the sub-section headed “Business — Our business model” in this document.

COMPETITIVE STRENGTHS

Our Directors are of the view that our positioning as a well-established integrated securities broker in Hong Kong together with the following competitive strengths contribute to our success and differentiate us from our competitors:

We nurture talent and maintain an experienced and stable management team

We believe our strategy of “recruiting the right persons, placing them at the right positions and focusing on talent cultivation” has helped us form a team of experienced, competent and stable professionals. We believe our talented team of professionals will help us maintain and improve our market position in a fiercely competitive industry like ours. We provide fortnightly training to our workforce and motivate them to engage in continuous professional training with awards to develop their individual talents and enhance their industry knowledge and technical expertise, with the aim of delivering premium services that could effectively accommodate our clients’ demands. We believe this has contributed to our overall staff retention. As at 31 December 2017, approximately 56.4% of our workforce has bachelor’s degrees or above, and our workforce holding bachelor’s degrees or above has been with us for an average of 3.8 years.

In addition, our workforce is led by our stable senior management team comprising experienced and forward looking individuals who possess an in-depth understanding of the financial services industry and the needs of our Hong Kong and the PRC clients. As at 31 December 2017, our senior

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management team had an average of over 20 years’ experience in securities and financial related industries. Two of our executive Directors, Ms. Kou and Mr. Chiu have over 25 and 40 years’ experience, respectively, in securities and financial related industries. Ms. Kou is also a director and vice-chairman of the Hong Kong Securities Association for the term 2017 to 2019.

Through on-going training and recruitment of high quality workforce led by an effective management team, we have been able to enhance our services in anticipation of client’s needs. This better enables us to effectively compete amongst our peers, and to successfully cultivate a loyal and diverse client base. We believe that we are well positioned to attract high-quality clients, and to increase our market share and achieve business growth.

We benefit from our long history which, coupled with our adherence to the principle of “Integrity, Trust-worthiness and Prudence”, has allowed us to build up a loyal and diverse client base

We can trace its origins to the early 1970s when our founder began our business through Victory Investment Company, which became a member of The Kam Ngan Stock Exchange Limited (金銀交易所). Throughout our history of over 40 years, we have been working towards our goals by adhering to our principle of “Integrity, Trust-worthiness and Prudence” and we have been able to grow and maintain our loyal client base.

As at 31 December 2017, 36.8% and 60.9% of our active clients have maintained accounts with us for over ten and five years, respectively, and in some cases, cross generations of clients have maintained securities trading accounts with us to conduct their securities trading.

We believe that our ability to build our client base is also dependent on our responsiveness to evolve in line with market trends including the shifting of client focus to encompass clients in the PRC. We have also embarked on a plan to expand our client base in the Greater China Region, to extend our financial services to a growing number of clients in the region and assist them to realise their wealth management goals. We provide our clients with regular market analyses for making investment decisions.

We believe that our principle of “Integrity, Trust-worthiness and Prudence” combined with our established local market presence in Hong Kong and our focus on clients from Hong Kong and the PRC has enabled us to foster a loyal and diverse client base. We will continue to leverage our diverse client sources to foster our client base to achieve long-term business growth.

We provide an integrated trading platform to our clients with access to the major financial markets in the world

With the increasing prevalence of internet use in our daily lives, our forward looking senior management initiated the development of an e-Trading platform since the early 2000’s, which enhanced execution speed, capacity and efficiency, providing flexible and effective financial services, supporting the diverse but personal needs of our clients. Over the last decade, we continue to allocate

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resources in this area to allow clients to capture investment opportunity in a timely manner and with ease. We introduced our Android and iOS compatible applications to allow our clients to access our online trading platform from their preferred mobile device or smartphones. Please refer to the paragraph headed “Online trading platform” in this section for details.

We also provide our clients access to securities trading and asset management services across the globe. By investing in information technology, we provide an efficient, convenient and comprehensive trading platform to our clients, who trade securities listed on the Stock Exchange, the Shanghai Stock Exchange, Shenzhen Stock Exchange as well as exchanges in Australia, Canada, Europe, Japan, Singapore, the United Kingdom, the United States and B shares in the PRC. We are a China Connect Exchange Participant and a China Connect Clearing Participant, and we formally launched our Shanghai Connect and Shenzhen Connect services in November 2014 and December 2016, respectively.

In recognition of our integrated trading platform, we have been awarded with “Outstanding eCommerce Excellence Award 2017 (傑出電子商務大獎 2017)” by the Economic Digest (經濟一週), “The Most Diverse Services Securities Firm of 2016” (2016年最佳多元化服務證券商) by the Hong Kong Commercial Daily in 2017 and “The Best Global Trading Securities Award” (最佳環球投資券 商大獎) by the Metro Awards (都市盛世銀行及金融服務企業獎) in 2015.

We believe that our integrated trading platform enables us to create new business opportunities and maximise our productivity as we cross-sell our expertise and services to deliver tailored services and advice to suit the needs of our clients and optimise client service coverage.

We are committed to providing a wide range of quality financial services to our clients

We offer a wide range of financial services to our clients. Apart from the provision of securities brokerage services, we also provide financing services to facilitate our clients to purchase securities in the secondary market and apply for new shares in connection with IPOs and leverage their investments. We also provide (i) placing services and offer our clients subscription opportunities on secondary debt offerings of listed companies in Hong Kong or the PRC; and (ii) asset management services to help our clients allocate their asset portfolio and diversify their investment risk.

Each of our high net worth clients is served by our experienced and professional account manager who is able to readily render personalised service, and we are ready to provide support when needed. We are committed to providing progressive, pragmatic and quality wealth management plans with regular analyses of market trends, along with flexible wealth management solutions to help clients to broaden their investment horizons.

In achieving the quality of services that delivered to clients, we have been accredited the ISO9001 certification in the scope of providing securities and futures trading services which helps us continually improve and develop and securities services management and safeguard the security of client assets. We won “Best Managed Brokerage Company in Hong Kong” (香港最佳管理券 商) in the

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“Hong Kong Best Equity House 2007/2008 Awards” (香港最佳券商評選) organised by the Hong Kong Commercial Daily in 2009 and “The Best Global Investment Securities Firm” (最佳環球投資券商大獎) in “Metro Awards for Banking & Finance Corporations” organised by Metro Daily and Metro Prosperity in 2015.

We believe that our high quality services combined with our ability to provide wide range of financial services to our client allow us to create cross-selling opportunities, optimise client service coverage and grow our high net worth client base to achieve business growth.

Prudent risk management system

We have adopted a prudent risk management system to ensure that we can continue to diligently serve our client needs without interruption, maintain client loyalty and build a reputation as a quality and trust-worthy securities broker. To manage credit risk arising from our financing operation, we monitor our client balances, margin levels as well as our financial resources position and conduct stress tests on a daily basis, all of which enable us to respond quickly to changes in client margin balances and our financial resources position and to enhance our capital efficiency and compliance capabilities.

We strongly believe our prudent risk management system has helped us to maintain smooth operations and sound credit position. During the Track Record Period, we have not made provisions for bad debts. In recognition of our efforts on risk management, we have been awarded “The Best Risk Management Award” (最佳風險管理獎) by the Metro Award (都市盛世銀行及金融服務企業獎) in 2011.

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We anticipate there will be a strong supply of high net worth PRC individuals and institutional investors in the near future. We believe that high net worth PRC individuals will look for value added services from financing to wealth management services, and a sophisticated asset allocation system. We also believe that small to medium sized PRC institutional investors will need in-depth research that gives future forecast and market intelligence, corporate finance and futures brokerage services, and trading system with higher order execution quality and capacity. In view of the above, we intend to implement the following strategies to further develop our business extensively and to create values for our Shareholders.

Enlarge the capacity of our financing services

Our financing service has contributed 18.8% to 12.9% of our total revenue for the years ended 31 December 2016 and 2017, respectively. For a healthier segregation of revenue and with a view to further improving our total revenue, we plan to enlarge the capacity of our financing service by reserving more funds to our clients who wish to purchase securities on a margin basis, and to offer margin loans to more clients and/or greater margin loan limits to our existing clients. In addition to our existing bank borrowings and internal resources, we intend to allocate a substantial portion of the [REDACTED] from the [REDACTED] to meet the growing margin financing needs of our clients, especially to offer margin financing of A share purchases via Shanghai Connect and Shenzhen

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Connect. The additional financing will bring in new revenue. Meanwhile we believe this will enlarge our client base of high net worth individuals who have strong demand for both financing and other financial services that we are offering such as brokerage and asset management services, thereby creating more cross-selling opportunities. Our financing service generates return from interest income currently at the annual rate of 2% above the Hong Kong Prime Rate. The expansion of our financing service would increase our interest income, potentially broaden our client base, and lead to the growth in our securities broking services as clients are required to trade through their accounts with us when utilising our financing service.

According to the annual reports of the SFC (2014-2015, 2015-2016 and 2016-2017) as shown in the section headed “Industry overview” in this document, the margin business in Hong Kong developed rapidly and the number of active margin clients increased from 139,375 in 2012 to 267,132 in 2016, representing a compound annual growth rate of 17.7%. The amounts receivable from active margin clients have grown from HK\$58.8 billion in 2012 to HK\$171.6 billion in 2016, representing a compound annual growth rate of 30.7%. We also experienced stronger demand for margin financing in the year ended 31 December 2017, which recorded higher monthly average outstanding margin loan balance and larger number of active margin accounts as compared to the respective figures for the year ended 31 December 2016. Our monthly average outstanding margin loan balance grew from HK\$68.4 million for the year ended 31 December 2016 to HK\$86.2 million for the years ended 31 December 2017. Our active margin accounts grew from 165 for the year ended 31 December 2016 to 168 for the year ended 31 December 2017. Our Directors believe that the stronger demand for margin financing was triggered by the good market sentiment and higher turnover in 2017 and the demand is expected to continue to remain stable in the near future.

During the Track Record Period, there were instances when we experienced capital constraints under the Securities and Futures (Client Securities) Rules in providing margin financing to its clients. Accordingly, the Directors intend to raise additional funds via the [REDACTED] to capture this opportunity. Upon the [REDACTED], margin financing and short term IPO financing would be financed by our internal resources and [REDACTED] earmarked for the margin financing business, which depending on demand may have an overall effect of reducing our existing bank borrowings and our borrowing costs.

Upgrade our portfolio management system and order management system

Over the last ten years, the nature of brokerage and other intermediary business have rapidly changed. Other than commission rate, clients start valuing other parameters of brokerage and other intermediary service. We have perceived an increasing demand for incorporating technology into the brokerage and intermediary services.

Taking advantage of financial technological advances in the securities and finance industry, we will be able to differentiate the needs of clients, and most importantly, meet their needs in a timely manner. We plan to engage an external vendor to help us develop and upgrade our portfolio management system and order management system to further streamline the efficiency, convenience and comprehensiveness of our trading system and provide our clients with a user-friendly interface to ensure that they can securely manage their wealth portfolios with ease.

For individual clients, we will further upgrade our smartphone app-based and Internet-based portfolio management system. Subject to the compliance with the applicable regulatory requirements, we aim to provide wireless access to our integrated trading platform to facilitate client management of their portfolios of different asset classes over major financial markets in the world and allow them to analyse associated risks efficiently.

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For institutional clients, we plan to upgrade our servers to reduce latency between client end and the BSS, with the ultimate aim to provide our institutional and professional clients high-speed order execution. We will also develop a new order management system capable of handling a series of algorithms of our institutional and professional clients.

Engage in proprietary trading

We plan to engage in proprietary trading with a private fund which would be invested under either a collective investor scheme or a unit trust and managed by our asset management team, with the aim to increase returns on our investments by capturing low-risk opportunities while ensuring working capital sufficiency and protection of the principal. As we engage in our proprietary trading business, our investment strategies will evolve to accommodate our business needs. We plan to invest in bonds and stocks which processes the following qualities after conducting in-depth research and detailed analyses: (i) we have an in-depth understanding of the relevant issuer; (ii) we believe there are opportunities for value investing; (iii) bonds and stocks of companies with good growth prospects; or (iv) stocks which are relatively undervalued in the market. For information on our policy and procedures governing our proprietary trading activities, please refer to the sub-section headed “Risk management and internal control — Risk management relating to our financing business” below in this section.

Expand our client network with a focus on high net worth and institutional clients.

While maintaining a loyal and diverse client base is vital for the highly competitive financial services industry, it is equally important for us to attract new clients. We intend to target high net worth clients by providing quality services and efficient portfolio management system to manage their investment or wealth. We also intend to target institutional clients who need our front or back office supporting services, broad product base with pricing advantages and a unique trading system to suit their business needs. We plan to expand our client base by (i) enhancing our reputation through the [REDACTED] as well as continuing to provide high quality customised client services; (ii) extending and enhancing our sales and marketing capabilities by new hires, preferably in possession of a marketing-related Bachelor’s degree with three years’ or above marketing experience to implement our marketing strategy; (iii) placing advertisements at MTR stations with heavy traffics such as the Central station; (iv) increasing our marketing activities by more active contact with professional parties and existing clients to strengthen business relationships; (v) participating or sponsoring investment related events such as seminars and other brand building activities; and (vi) participating in charity events that enhance our sense of social responsibilities to promote our corporate image.

We believe that enlarging our client base will allow us to strengthen our pool of potential clients to offer our services such as our financing services and asset management services which can lead to organic growth in our securities broking services.

Enter into the corporate finance advisory business and resume the futures brokerage business

We intend to leverage our business and industry strengths to capture potential client needs, and offer more diversified range of financial services such as advising on corporate finance, including fund raising services (such as equity and debt placing and underwriting), financial advisory services and ultimately sponsor services to institutional clients.

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We plan to provide financial advisory services to our clients, including, among others, advice on mergers and acquisitions transactions and independent financial advisory services to listed companies. We will charge advisory fees based on the type and size of the transactions, duration of the engagement, complexity of the transaction and the expected manpower requirements. Further, we also plan to resume the futures brokerage business in order to diversify our business services. The futures brokerage business shall be funded by our internal resources amounting to approximately HK\$480,000 per annum.

By expanding our services, we will increase our market share by capturing potential client needs of both high net worth and corporate clients. We will be able to better serve these needs by offering more diversified range of investment and financing services as well as platforms with the potential to cross sell such services to our existing clients. Starting from interactive collaboration with institutional investors by providing research service, we plan to develop our institutional sales capabilities. We plan to hire talents to assist us to develop the advisory service and resume the futures brokerage business, expand the team and establish separate office premises depending on business demand.

Enhance our research capabilities and asset management service

Hong Kong is well placed as a bi-directional investment hub for the PRC bound investment. Its position as an offshore wealth management centre for the PRC has been further enhanced with the introduction of Shanghai Connect and Shenzhen Connect. During the Track Record Period, we have offered PRC and local clients our asset management services.

We plan to enhance our research capabilities to better serve our asset management team and institutional investors by continuously recruiting and employing talented analysts with capital market exposure. We will expand the breadth and depth of research of listed companies in relevant key areas, to provide quality research reports to our asset management team and institutional investors, ultimately to increase investment return of our AUM. We believe that by achieving strong returns for our clients, we can attract more AUM from our existing or potential clients. We also plan to expand our investment channels in the capital market.

We anticipate that growth in our asset management services will lead to organic growth in our securities broking services.

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OUR BUSINESS MODEL

We are a well-established securities broker in Hong Kong providing a wide range of securities broking and related financial services to our clients including (i) securities broking services; (ii) financing services; and (iii) asset management services. We conduct our business activities through our wholly owned subsidiary Victory Securities (HK), which is licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 9 (asset management, under the condition that it shall not provide a service of managing a portfolio of futures contracts for another person) regulated activities under the SFO. Victory Securities (HK) is a participant of HKSCC, a China Connect Exchange Participant and a China Connect Clearing Participant. As at the Latest Practicable Date, Victory Securities (HK) held two Stock Exchange Trading Rights. We did not engage in dealing in futures contracts during the Track Record Period but plan to resume the futures brokerage business.

Our main services by business segment include:

Business Segment	Main Services
Securities broking services	<ul style="list-style-type: none"> • Securities brokerage • Placing services
Financing services	<ul style="list-style-type: none"> • Margin financing • Short-term IPO financing
Asset management services	<ul style="list-style-type: none"> • Asset management on a discretionary account basis

The table below sets forth a breakdown of our revenue by business segment during the Track Record Period:

	Year ended 31 December			
	2016		2017	
	<i>HK\$'000</i>	<i>% of revenue</i>	<i>HK\$'000</i>	<i>% of revenue</i>
Securities broking services	23,832	78.8	46,938	83.2
Financing services	5,686	18.8	7,267	12.9
Asset management services	717	2.4	2,228	3.9
Total	<u>30,235</u>	<u>100.0</u>	<u>56,433</u>	<u>100.0</u>

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(i) Securities broking services

Our securities broking services comprise mainly brokerage services and placing services. The table below sets forth a breakdown of the revenue from our securities broking services during the Track Record Period:

	Year ended 31 December			
	2016		2017	
	<i>HK\$'000</i>	<i>% of revenue</i>	<i>HK\$'000</i>	<i>% of revenue</i>
Brokerage services	20,156	84.6	35,406	75.4
Placing services	—	0.0	4,760	10.1
Others ¹	3,676	15.4	6,772	14.5
Total	<u>23,832</u>	<u>100.0</u>	<u>46,938</u>	<u>100.0</u>

Note:

1. Others comprises (i) handling fee income arising from the services such as scrip handling services, settlement services, account servicing, corporate-action-related services, certain other miscellaneous services and (ii) interest income from our deposits.

(a) Brokerage services

We provide brokerage services to clients to trade securities listed on the Stock Exchange as well as the Shanghai Stock Exchange and Shenzhen Stock Exchange via the Shanghai Connect and Shenzhen Connect, respectively. We also enable our clients to trade securities listed in Australia, Canada, Europe, Japan, Singapore, the United Kingdom, the United States and B shares in the PRC by providing access to trading systems operated by external brokers licensed in their respective jurisdictions.

Securities classes

We execute trades in various securities classes on behalf of our clients, including:

- Stocks: (i) stocks of listed companies on the Stock Exchange; (ii) eligible A shares under the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, and B shares of listed companies on the PRC stock exchanges; and (iii) stocks of companies listed on stock exchanges elsewhere, including Australia, Canada, Europe, Japan, Singapore, the United Kingdom and the United States;
- Derivatives: Stock Exchange traded derivative warrants and the Callable Bull/Bear Contracts;
- Bonds: treasury bonds, corporate bonds and convertible bonds; and

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- Funds: listed funds, authorised funds, other funds in the market and ETFs.

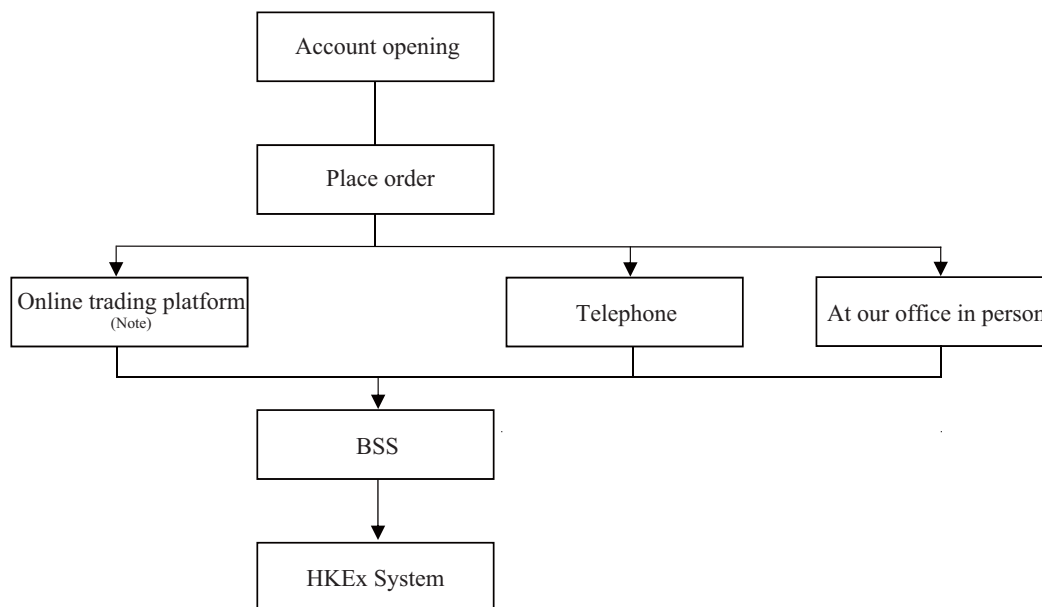
The table below sets forth the breakdown of our commission and brokerage income by securities classes for the years indicated:

	Year ended 31 December			
	2016		2017	
	<i>HK\$'000</i>	<i>(%)</i>	<i>HK\$'000</i>	<i>(%)</i>
Securities and derivatives	19,302	95.8	34,580	97.7
Bonds	428	2.1	25	0.0
Funds	<u>426</u>	<u>2.1</u>	<u>801</u>	<u>2.3</u>
Total	<u><u>20,156</u></u>	<u><u>100.0</u></u>	<u><u>35,406</u></u>	<u><u>100.0</u></u>

Our clients must maintain a securities trading account with us before they may place any securities trading orders with us. Our client accounts are divided into two main types: cash account and margin account. Cash accounts allow our clients to purchase securities with the available funds or credit in his or her account. Margin accounts are discussed further in the sub-section headed “Business — Our business model — (ii) Financing services” in this document. To open a trading account with us, clients must complete our account opening procedures which include signing account opening forms, trading agreements risk disclosure statements and in certain cases, standing authorities or powers of attorney. We also conduct “know-your-client” procedures against new clients. For further details of our general account opening procedures, please refer to the sub-section headed “Risk management and internal control — Risk management and internal control measures for our securities brokerage business — Accounts opening” in this document.

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Clients may place securities trading orders at our office in person or remotely through telephone calls or through our online trading platform, which can be accessed by web browser or our computer / mobile device applications. Please refer to the paragraph headed “Online trading platform” in this section for details. The flowchart below illustrates the securities dealing procedures of our brokerage services:



Note: Our online trading platform can be accessed by web browser or our computer application or Android or iOS compatible mobile device application.

All securities trading orders placed by telephone are generally managed and executed by our dealing staff, while in certain circumstances managed by our licensed employees or self-employed account executives, all of whom are licensed under the SFO. As at 31 December 2016 and 31 December 2017, we had four and four dealing staff, respectively. Dealing staff are primarily responsible for receiving and processing client trading orders as well as providing investment information incidental to our securities broking services under the scope of our license for Type 1 regulated activity (dealing in securities), including but not limited to latest buy/sell prices and trading volume of stocks to assist clients to placing their securities trading orders.

We have designated certain trading accounts as “**House Accounts**”, which consist of walk-in clients and clients sourced by ex-employees or those self-employed account executives who no longer work for us. When clients are sourced by our licensed employees or self-employed account executives, those clients’ trading accounts are classified as “**Referred Accounts**”. Our dealing staff serve and manage both House Accounts and the portfolio of Referred Accounts introduced by our licensed employees, whereas our self-employed account executives serve their own portfolio of Referred Accounts only.

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Securities brokerage commission income generated from the House Accounts is completely attributed to us. The commission income generated from the Referred Accounts is subject to sharing between us and (a) the responsible licensed employees at a uniform pre-determined percentage; or (b) the responsible self-employed account executives at an agreed percentage that varies from one another. Such percentage is based on negotiations between the self-employed account executives and our Group and determined on a case-by-case basis after taking into account factors including the clients' transaction histories, trading volumes and frequencies, financial positions and the prevailing commission rates. For the years ended 31 December 2016 and 2017, we paid brokerage commission of HK\$3.7 million and HK\$5.9 million, respectively to our self-employed account executives and licensed employees, which accounted for 18.3% and 16.6% of our brokerage and commission income. We paid brokerage commissions 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.

Our self-employed account executives are primarily responsible for sourcing clients and handling client relationship, as well as processing trading orders for their own clients. Unlike our licensed employees who are generally entitled to basic salary and performance bonus, self-employed account executives are not our employees but they are entitled to share a higher percentage of brokerage commission than our licensed employees. The table below sets forth the movement of number of our self-employed account executives for the years indicated:

	Year ended 31 December	
	2016	2017
Number of self-employed account executives at the beginning of the year	24	25
Number of new self-employed account executives during the year	5	8
Number of self-employed account executives departing during the year	(4)	(2)
Number of self-employed account executives at the end of the year	25	31

The major terms of agreements signed between our self-employed account executives and our Group are set forth below:

- It is expressly declared that the agreement and the relationships between our Group and the self-employed account executives do not constitute a contract of employment between them;
- Both parties agree that all commissions received from clients referred by self-employed account executives will be shared between us and the responsible self-employed account executive at an agreed percentage;
- Self-employed account executives will be solely responsible for all bad debts incurred by his or her clients, if any;

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- Self-employed account executives will not be entitled to annual leave, salary and benefits. He or she will be responsible for making their own application to the Mandatory Provident Fund (“MPF”) on their own account;
- Self-employed account executives must comply with the SFO, and all codes and guidelines laid down by the SFC and HKEx;
- Self-employed account executives must comply with our company policy, staff manual and relevant guidelines; and
- Either party may terminate the agreement by providing one month written notice to the other party. There are no exclusivity clauses or non-competition undertakings under the service agreements between the self-employed account executives and our Group.

Our Directors consider that by engaging self-employed account executives, we can easily gain access to more potential clients without bearing extra fixed staff costs. For the years ended 31 December 2016 and 2017, commission and brokerage income generated from Referred Accounts of our self-employed account executives was HK\$2.3 million and HK\$2.8 million, respectively. For the years ended 31 December 2016 and 2017, commission and brokerage income attributable to our top five self-employed account executives, in aggregate was HK\$1.2 million and HK\$1.7 million, respectively, accounting for 5.9% and 4.9% of our total commission and brokerage income, respectively. During the same period, our top self-employed account executive accounted for 1.8% and 1.1% of our total commission and brokerage income, respectively.

Pursuant to the Code of Conduct, employees of a licensed corporation should generally be required to deal through the licensed corporation which they are employed under, unless permitted by their employers. According to our policy, licensed employees and self-employed account executives are generally required to deal in securities through their securities trading accounts maintained with us. Please refer to the sub-section headed “Business — Risk management and internal control — Staff dealing rules” for further details of our risk management measures in relation to staff dealing. Our licensed employees and self-employed account executives may be entitled to a discounted brokerage fee for trading on their own accounts.

Collaboration with external brokers

We enable clients who have made appropriate applications to us to trade securities listed on overseas exchanges. We provide access to overseas trading systems operated by external brokers licensed in their respective jurisdictions via our telephone system or online trading platform. Clients trading securities listed on overseas exchanges (including Australia, Canada, Europe, Japan, Singapore, the United Kingdom, the United States and B shares in the PRC) are generally conducted on our online trading platform which connects to an external broker for execution. We maintain securities trading accounts with our external brokers and have entered into standard brokerage agreements with them. 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 clients. In turn, we charge our clients a mark-up on commissions and fees at agreed rates on top of the amounts we are required to pay to the external brokers. The external brokers are responsible for carrying out the trades as well as safekeeping the assets in our designated accounts with them.

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The salient terms of arrangement with our major external brokers are set out in the table below:

Commissions and fees:	<p>Generally, we shall be entitled to commission and fees of trades conducted by the external broker and the external broker receives service charges at a prescribed percentage; or</p> <p>An external broker charges us a decreasing step rate of monthly commission charged against the monthly volume of shares traded subject to a minimum monthly flat rate.</p>
Our and responsibilities:	<p>We shall avail to its public clients the custody, brokerage and business services offered by the external brokers;</p> <p>We shall make available to its public clients through its website, information and services offered by external brokers; and</p> <p>We shall hold the external broker harmless against and indemnify it in respect of any losses as a result of our failure as listed in the agreement unless such act or omission is in part caused by or contributed to by the external broker.</p>
Role and responsibilities of external broker:	<p>Perform the custody, brokerage and business services for us;</p> <p>Use the degree of care and skill as is customary in the relevant market in performing such services;</p> <p>Ensure information by it is accurate, true and not misleading; and</p> <p>To hold us harmless against and indemnify it in respect of any loss as a result of its negligence, neglect or fraud or any act or omission constituting a breach of the agreement.</p>

Save as disclosed above, our external brokers do not charge us any other commissions or fees nor are there any revenue sharing arrangements between our external brokers and us.

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The table below sets forth a geographical breakdown of trading turnover and commission and brokerage income for the years indicated:

	Year ended 31 December					
	2016			2017		
	Trading turnover <i>HK\$'000</i>	Brokerage income <i>HK\$'000</i>	%	Trading turnover <i>HK\$'000</i>	Brokerage income <i>HK\$'000</i>	%
Hong Kong						
- Ordinary investors	7,530,231	16,080	79.8	12,417,765	25,567	72.2
- High volume day trading clients	7,387,180	313	1.6	113,733,087	1,902	5.4
USA ¹	730,123,567	3,236	16.1	1,320,460,768	7,144	20.2
PRC ²	53,160	77	0.4	277,744	392	1.1
Others ³	87,838	450	2.1	69,242	401	1.1
Total	<u>745,181,976</u>	<u>20,156</u>	<u>100.0</u>	<u>1,446,958,606</u>	<u>35,406</u>	<u>100.0</u>

Notes:

- Our external brokers in the United States charged our clients based on the number of shares traded. Trading turnover refers to the value of securities traded on exchanges of the United States through our external brokers. During the Track Record Period, our brokerage income derived in the United States consists principally volume discount from our external broker based in the United States.
- PRC securities are comprised of (i) B shares and (ii) eligible securities traded through the Shanghai Connect and Shenzhen Connect.
- Others refers to securities traded on other exchanges in Australia, Canada and Singapore through external brokers. During the Track Record Period, we did not derive any revenue from securities traded on exchanges in Europe, Japan and the United Kingdom.

The table below sets forth the number of our high volume day traders for the years indicated:

	Year ended 31 December	
	2016	2017
Hong Kong market		
— individual (Hong Kong)	5	19
— individual (PRC)	23	18
— corporate	1	1
United States market		
— individual (Hong Kong)	—	2
— individual (PRC)	2	8

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For high volume day traders conducting securities trading through our external brokers in the United States, we may receive a volume discount on commissions received by the external brokers on trades placed by our clients and executed on their respective trading platforms. The amount of volume discount received by us varies depending on the volume of trades executed on the external trading platform. As at the Latest Practicable Date, we had 14 external brokers and our major external brokers had between three to eight years of business relationship with us and were Independent Third Parties. Since we do not have actual broking activities in overseas jurisdictions, we are not required to obtain licenses in such jurisdictions.

Brokerage commission

Our brokerage services revenue represents commission and brokerage fee which is recognised on a trade date basis when the relevant transactions are executed. We receive commission and brokerage fee from clients who trade through us. Our existing standard brokerage commission rate is 0.25% with a minimum charge of HK\$100. Based on their past trading record, financial position, future trading volume and frequency, some clients would request for a lower commission rate and we may agree to such request should we consider the discount acceptable and financially viable to us, but in no circumstance lower than 0.1% for ordinary investors. Brokerage commission rate to be received from the clients of Referred Accounts are determined by the respective licensed employee or self-employed account executive with his or her client, subject to our approval.

In limited circumstances, we charge a fixed fee or brokerage commission rate as low as 0.01% on a small number of clients who are high volume day traders placing high frequency buy and sell orders for derivatives within the same trading day.

For each of the years ended 31 December 2016 and 2017, our average brokerage commission rates were 0.216% and 0.207%, respectively. Average brokerage commission rate equals commission and brokerage fee revenue from our brokerage services divided by the brokerage trading turnover (excluding commission rate offered to high volume day traders and U.S. market clients), for the same year.

Broking clients

As at 31 December 2017, we had a total of 8,177 broking trading accounts comprising 8,061 trading accounts of retail clients (including individual and joint accounts) and 116 trading accounts of institutional and corporate clients. Out of all our broking trading accounts, 1,613 were active accounts (being clients whose accounts recorded at least one trading activity, for purchase and/or sale

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of securities, broking transaction, in the past twelve months). The table below sets forth the movement of number of our client accounts for the years indicated:

	Movement of client account number of our Group	
	31 December	
	2016	2017
Number of client accounts at the beginning of the year	7,776	7,986
Number of new accounts opened	239	204
Number of client accounts closed	(29)	(13)
Number of client accounts at the end of the year	7,986	8,177
Number of active client accounts at the end of the year	1,279 ¹	1,613 ²

Notes:

1. Active client accounts at the end of 2016 attributable to 1065 active clients
2. Active client accounts at the end of 2017 attributable to 1360 active clients

The table below 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 broking business as at the dates indicated:

	As at 31 December			
	2016		2017	
	<i>Active</i>	<i>Total</i>	<i>Active</i>	<i>Total</i>
Combined				
Retail client accounts <i>(Note)</i>	1,269	7,886	1,598	8,061
Institutional and corporate clients	10	100	15	116
Total	<u>1,279</u>	<u>7,986</u>	<u>1,613</u>	<u>8,177</u>

Note: Including individual and joint accounts.

The table below sets forth the number of active accounts and total trading accounts in terms of account age as at the dates indicated:

	As at 31 December							
	2016				2017			
	<i>Active</i>	<i>(%)</i>	<i>Total</i>	<i>(%)</i>	<i>Active</i>	<i>(%)</i>	<i>Total</i>	<i>(%)</i>
Account Age								
More than ten years	401	31.4	3,198	40.0	594	36.8	3,838	46.9
More than five years to ten years	323	25.3	2,789	34.9	388	24.1	2,663	32.6
More than one year to five years	474	37.1	1,761	22.1	446	27.7	1,240	15.2
One year or less	81	6.2	238	3.0	185	11.4	436	5.3
Total	<u>1,279</u>	<u>100.0</u>	<u>7,986</u>	<u>100.0</u>	<u>1,613</u>	<u>100.0</u>	<u>8,177</u>	<u>100.0</u>

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The table below sets forth the breakdown of active accounts by frequency of trades during the twelve months preceding the dates indicated:

	As at 31 December			
	2016		2017	
	<i>Active</i>	(<i>%</i>)	<i>Active</i>	(<i>%</i>)
Number of trades during preceding twelve months				
More than 30	236	18.5	362	22.4
30 or less but more than 10	201	15.7	285	17.7
10 or less	842	65.8	966	59.9
Total	<u>1,279</u>	<u>100.0</u>	<u>1,613</u>	<u>100.0</u>

The table below sets forth the breakdown of active accounts by ranges of brokerage commission during the twelve months preceding the dates indicated:

<i>Brokerage commission (in HK\$)</i>	Number of active accounts within brokerage commission range	
	As at 31 December	
	2016	2017
Less than or equal to 500	515	690
501 to 1,000	161	175
1,001 to 5,000	317	357
5,001 to 10,000	91	115
10,001 to 25,000	91	119
Over 25,000	104	157
Total:	<u>1,279</u>	<u>1,613</u>

Online trading platform

Securities trading orders can be placed online via our online trading platform. For the convenience of our clients, we provide our clients with various ways to access our online trading platform; our clients can gain access via a web browser or our downloadable computer application. Depending on the sophistication of our client, we offer various computer applications to suit their needs, from our basic GTS Lite, to the Victory Global Transaction System for clients wishing to trade securities listed on overseas exchanges, and Sterling Trader which offers a trading management suite to support the needs of our professional traders. With the increased use of mobile devices such as smartphones, we introduced our Android and iOS compatible applications in 2011 which allow our clients to access our online trading platform from their preferred mobile device.

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Our clients are provided with their own user names and password to access our online trading platform, which allows our clients to obtain real-time access to our brokerage services, obtain latest buy/sell price quotes and trading volume (upon paying a subscription fee), conduct trading and monitor account balance, transaction history and status.

Buy/sell orders are automatically transmitted to the BSS online 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 via our online trading platform. No involvement of dealing staff or account executives is required.

For each of the years ended 31 December 2016 and 2017, revenue derived from orders placed online (excluding cancelled orders which did not consummate) accounted for 26.8% and 24.0%, respectively of total revenue from our securities broking services.

(b) *Placing services*

During the year ended 31 December 2017, we commenced providing placing services for debt securities issued by listed companies in Hong Kong. We are generally engaged by listed issuers as a placing agent to place debt securities. The placing commission rates are subject to negotiation on a case-by-case basis with the listed issuer and is generally determined with reference to, among other matters, the type of debt securities offered, fund raising size, market condition and prevailing market rate. Depending on the terms of a particular placing document, the placing activities can either be on a fully underwritten basis or on a best effort basis.

During the year ended 31 December 2017, we placed debt securities totalling HK\$283.6 million for two issuers listed in Hong Kong and one unlisted PRC issuer. Their principal business activities are (i) operation of department stores in the PRC, (ii) development and sale of properties in the PRC and (iii) research and development of high-technology pharmaceutical products in the PRC. The former two had a market capitalisation as at 31 December 2017 of HK\$2,665 million and HK\$1,414 million, respectively. The latter is an unlisted state-owned enterprise which had total assets as at 31 December 2016, of RMB54,839 million and registered capital of RMB5,329 million. Average commission rate for our placing transactions during the Track Record Period was 1.7%.

The commission income from the placing services for the year ended 31 December 2017 was HK\$4.8 million accounting for 10.1% of our total securities broking services revenue.

(c) *Ancillary broking services*

Depending on specific needs of our clients, we also offer ancillary services such as scrip handling services, settlement services, account servicing, corporate-action-related services and certain other miscellaneous services. We charge handling fees for providing such services.

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(ii) Financing services

Our financing services are complementary to our securities broking services. We provide margin financing to our clients who wish to purchase securities on the Stock Exchange or short-term IPO financing to clients to make applications for IPOs for selected cases approved by the company. We also provide trading facilities to our clients and generate interest income from our cash account clients on their overdue debit balance.

The provision of our financing services is conducted under our license for Type 1 regulated activity (dealing in securities), which allows our licensed entity to provide financial accommodation to facilitate the acquisition of securities by our clients. Our financing services are funded by internal cash flow and bank borrowings. For the years ended 31 December 2016 and 2017, the amount of revenue generated from our financing services was HK\$5.7 million and HK\$7.3 million respectively, representing 18.8% and 12.9% of our total revenue.

The following table sets forth a breakdown of our financing services revenue for the years indicated:

	Year ended 31 December			
	2016		2017	
	HK\$'000	(%)	HK\$'000	(%)
Secondary market ^(note)	5,648	99.3	7,114	97.9
IPOs	38	0.7	153	2.1
Total:	<u>5,686</u>	<u>100.0</u>	<u>7,267</u>	<u>100.0</u>

Note: secondary market refers to interest derived from margin financing and interest on overdue debit balance of our cash clients.

Margin accounts

Clients who wish to obtain margin financing from us, must maintain a margin account with us. We provide margin financing for margin account clients who pledge securities collaterals with us before we extend the credit line to the client.

As part of the account opening procedure, a client who requests for margin account will be granted a margin loan limit which is subject to the approval by the senior management of Victory Securities (HK) of seniority level of chief operating officer or above (the “**Margin Financing Approver**”), as at the Latest Practicable Date that is Ms. Kou who is our chief executive officer or Mr. Chiu who is our chief operating officer.

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In order to decide the margin loan limit or credit limit (as the case may be), our Margin Financing Approver or the chief operating officer (as the case may be) will consider, among other things, the request from the client, the age, occupation, financial standing, the credit history of the client, the past trading record of the client, the settlement record of the cash settlement account (whether maintained with us or not) and the nature and market value of the eligible collateral (if applicable). Unless otherwise approved by the Margin Financing Approver, the maximum credit limit of margin loans grant to a single margin account is HK\$6.0 million and is adjusted from time to time.

We monitor the margin limits of our clients on a regularly basis. All margin loan limits are reviewed and adjusted, if necessary, by our Margin Financing Approver from time to time. When there is market volatility, the management may conduct a special review of the margin loan limits and decide if the margin loan limit needs to be adjusted. We also charge our margin account clients on a monthly basis with interest calculated daily, and a stock custody fee of HK\$100 semi-annually.

Non-margin financing accounts

In respect of cash accounts, clients may request for a trading facility with a maximum credit limited of HK\$300,000. Such requests are subject to the approval of the chief operating officer. If cash accounts have an overdue debit balance at the end of the trading day, we will charge the respective clients on a monthly basis with interest calculated daily.

Margin Loan Balance

As at 31 December 2016 and 31 December 2017, we had an outstanding margin loan balance of approximately HK\$80.1 million and HK\$96.2 million respectively.

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The table below sets forth an analysis of the total outstanding margin loan balances in our securities margin accounts for the years or as at the dates indicated:

	As at or for the year ended 31 December	
	2016	2017
Number of margin accounts	668	719
Total outstanding margin loan balance in our securities margin accounts (<i>HK\$'000</i>)		
— Monthly average balance	68,445	86,230
— Highest month end balance	80,091	96,543
— Lowest month end balance	61,275	67,310
Margin loan balance as at the relevant year end (<i>HK\$'000</i>)	80,091	96,225
Margin value (<i>HK\$'000</i>) ⁽¹⁾ as at the relevant year end	77,258	118,469
Market value ⁽²⁾ of the securities pledged to us as at the relevant year end (<i>HK\$'000</i>)	251,751	349,324
Loan-to-margin ratio ⁽³⁾ as at the relevant year end	103.7%	81.2%
Loan-to-value ratio ⁽⁴⁾ as at the relevant year end	31.8%	27.5%
Range of day-end loan-to-margin ratios ⁽⁵⁾ during the relevant year	53.9% to 107.6%	77.2% to 115.1%
Range of day-end loan-to-value ratios ⁽⁶⁾ during the relevant year	16.9% to 35.3%	25.7% to 34.3%
Range of day-end margin loan balances granted (<i>HK\$'000</i>) ⁽⁷⁾ during the relevant year	15,840 to 80,091	66,494 to 100,928
Range of day-end margin loan balances granted during the relevant year on an individual basis (<i>HK\$</i>)	1 to 9,111,120	0 to 10,368,651
Range of margin loan principal on an individual client basis during the relevant year (<i>HK\$</i>)	200 to 11,191,641	1,560 to 20,999,501

Notes:

- (1) Margin value refers to the market value of the securities pledged with us as collaterals for margin loans multiplied by a collateral lending ratio for each of the respective securities or a portfolio of securities. It indicates the quality of collaterals held by a brokerage house.
- (2) Market value refers to the total market value of the securities pledged as collateral for margin loans.
- (3) Loan-to-margin ratio refers to the ratio of the total amount of accounts receivable from margin clients as at the dates indicated to the margin value as at the same dates. We will not take any action if the loan-to-margin ratio is above 100%. We will consider making margin calls when the loan-to-value ratio exceeds an assigned ratio. Please refer to the sub-section headed “Business — Our business model — (ii) Financing services - Margin finance monitoring and call” in this document for more details.
- (4) Loan-to-value ratio refers to the ratio of the total amount of accounts receivable from margin clients as at the dates indicated to the market value of the underlying securities pledged as collateral as at the same dates.
- (5) This refers to the range of actual loan-to-margin ratio at the end of any given trading day during the indicated year.
- (6) This refers to the range of actual loan-to-value ratio at the end of any given trading day during the indicated year.
- (7) This refers to the range of day-end margin loan balances granted at the end of any given trading day during the indicated year.

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The table below sets forth the breakdown of margin loans granted to our top five margin clients as at the year end dates during the Track Record Period.

As at 31 December 2016

Ranking	Client name	Background	Date began relationship with client	Margin loan outstanding as at year end (HK\$'000)	As a percentage of our Group's total outstanding margin loan balance	Nature of collateral pledged
1	Margin client A	Hong Kong individual	July 2011	3,958	4.9%	Blue-chip and securities of Hong Kong listed issuers (non-blue-chip)
2	Margin client B	Hong Kong individual	December 2004	3,213	4.0%	Blue-chip and securities of Hong Kong listed issuers (non-blue-chip)
3	Margin client C	PRC individual	August 2005	3,086	3.9%	Securities of Hong Kong listed issuers (non-blue-chip)
4	Margin client D	Hong Kong individual	August 2010	2,726	3.4%	Securities of Hong Kong listed issuers (non-blue-chip)
5	Margin client E	Hong Kong individual	January 2005	2,363	2.9%	Securities of Hong Kong listed issuers (non-blue-chip)
Total:				<u>15,346</u>	<u>19.1%</u>	

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As at 31 December 2017

Ranking	Client name	Background	Year began relationship with client	Margin loan outstanding as at year end (HK\$'000)	As a percentage of our Group's total outstanding margin loan balance	Nature of collateral pledged
1	Margin client F	Hong Kong individual	July 2003	5,166	5.4%	Blue-chip
2	Margin client G	PRC individual	March 2005	4,996	5.2%	Securities of Hong Kong listed issuers (non-blue-chip)
3	Margin client E	Hong Kong individual	January 2005	4,137	4.3%	Securities of Hong Kong listed issuers (non-blue-chip)
4	Margin client H	PRC individual	November 2017	4,011	4.2%	Securities of Hong Kong listed issuers (non-blue-chip)
5	Margin client B	Hong Kong individual	December 2004	3,815	4.0%	Securities of Hong Kong listed issuers (non-blue-chip)
Total:				<u>22,125</u>	<u>23.1%</u>	

Collaterals

We require our clients to provide sufficient collateral to cover the loan amount prior to the grant of the margin loan for margin accounts. We maintain a list of securities and debt instruments eligible as collateral with respective lending ratio in accordance with average lending ratios provided by our major banks. We will take the lower rate if the two banks have different lending ratios except for those securities with a lending ratio lower than 40%, where we will have our own assessment of the lending ratio based on its market capitalization, volatility and liquidity. Clients who request to pledge securities outside our list of eligible collateral or increase the lending ratio for a specific eligible collateral must be approved by the Margin Financing Approver in advance, taking into account factors including, among others, the relationship with the client, the client's creditworthiness, prevailing market conditions and market capitalization, volatility and liquidity of the eligible collateral intended or provided. During the Track Record Period and up to the Latest Practicable Date, we lent between 20% to 90% of the value of eligible collateral.

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The table below sets forth the breakdown of applicable lending ratios by stock for eligible collateral used in our margin financing business as at the Latest Practicable Date.

Stocks	Applicable lending ratio (%)	Number of acceptable securities or debt instruments as collateral	Percentage of acceptable securities as collateral (%)
Blue-chip	45-70	50	9.9
Securities of Main Board listed issuers (non-blue-chip)	40-65	454	89.5
Securities of GEM listed issuers (non-blue-chip)	30-40	1	0.2
Securities of companies listed on overseas stock exchanges	30	—	—
Bonds	90	<u>2</u>	<u>0.4</u>
Total		<u>507</u>	<u>100.0</u>

The lending ratio represents the maximum percentage of financing our client can receive against the value of eligible collateral in his or her account. Our management has implemented appropriate credit control procedures and taken steps to minimise the concentration of margin loans and stocks.

In addition, whereas we discourage accepting “concentrated eligible collateral” (meaning the situation where 80% or above of the total value of the eligible collateral portfolio coming from a single equity), our chief operating officer may allow such circumstances while taking into account the following factors: level of familiarity with the client’s background; number of years of client relationship with us; credit history of the client; quality and liquidity of the eligible collateral; the total outstanding loan amount of the client; and the concentration level of such equity securities in our eligible collateral portfolio.

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The table below sets forth a breakdown of the nature of securities that were pledged by our clients as collateral of our margin financing business as at the dates indicated:

	As at 31 December			
	2016		2017	
	HK\$'000	%	HK\$'000	%
Stocks				
Blue-chip	32,104	12.8	86,158	24.8
Securities of Main Board listed issuers (non-blue-chip) with market capitalisation of (HK\$): ¹				
— More than 5 billion	79,706	31.7	72,463	20.7
— 2 billion to 5 billion	60,276	23.9	62,563	17.9
— Less than 2 billion	69,761	27.7	103,045	29.5
Securities of GEM listed issuers (non-blue-chip)	<u>7,838</u>	<u>3.1</u>	<u>7,292</u>	<u>2.1</u>
Subtotal	249,685	99.2	331,521	95.0
Securities of companies listed on overseas stock exchanges	<u>2,035</u>	<u>0.8</u>	<u>10,634</u>	<u>3.0</u>
Bonds	<u>31</u>	<u>0.0</u>	<u>7,169</u>	<u>2.0</u>
Total	<u><u>251,751</u></u>	<u><u>100.0</u></u>	<u><u>349,324</u></u>	<u><u>100.0</u></u>

Notes:

1. Market capitalisation calculated as at the date indicated.

As at 31 December 2016, the majority of securities that were pledged by our clients to us as collateral were non-blue-chip securities of Main Board listed issuers with market capitalisation of more than HK\$5 billion, accounting for 31.7% of the total pledged securities. As at 31 December 2017, the majority of securities that were pledged by our clients as collateral were non-blue-chip securities of Main Board listed issuers with market capitalisation of less than HK\$2 billion, accounting for 29.5% of the total pledged securities.

As at 31 December 2016 and 31 December 2017, the percentages of blue-chip securities that were pledged as collateral were 12.8% and 24.8% respectively of the total pledged securities, whereas the pledged securities of companies listed on overseas stock exchanges were 0.8% and 3.0% respectively.

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Interest Rate

During the Track Record Period, interest rates normally we charged for margin loans were generally set at the annual rate of 2% above the Hong Kong Prime Rate, currently up to 7.25% per annum, for purchase of securities on the Stock Exchange on a margin basis. In certain circumstances, we charge our clients higher interest rates when we consider the relevant margin collaterals expose us to a concentration risk. For the years ended 31 December 2016 and 2017, average interest charged on margin loans was 6.77% and 7.20%, respectively. We charge interest rates of up to 2.7% per annum for short-term IPO financing.

For cash account clients, we generally charged interest at the annual rate of 2% above the Hong Kong Prime Rate, currently up to 7.25% per annum if the respective client has an overdue debit balance.

Almost all margin financing (excluding IPO financing) extended to provide funding flexibility to our clients is secured by securities or debt instruments listed on the Stock Exchange and pledged to us. A list of eligible securities and debt instruments and their respective lending ratios 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. The securities which are pledged to us may be repledged to our banks to secure our bank loans pursuant to a standing authority given to us by our clients.

External Bank Borrowings

During the Track Record Period, the margin financing and short term IPO financing we provided were financed by our internal resources and banking facilities with securities pledged by our clients to be repledged by us as loan security. We had arranged HK\$196.5 million of bank facilities to meet our working capital and other liquidity requirements, and to fund our financing business. Part of our facilities from Bank A matured and were renewed in October 2017 for a further term until 6 October 2018. Upon such renewal, we have available bank facilities of HK\$190.0 million. The table below sets forth the details of our bank borrowings as at the Latest Practicable Date:

Type and Amount of Loan	Bank	Interest Rate	Duration	Collateral	Other Fees
Overdraft of HK\$18 million (“OD1”)	Bank A	Hong Kong prime rate or such rate as Bank A may determine from time to time, payable in arrears on a monthly basis	No fixed term but subject to Bank A’s overriding right of repayment on demand	Guaranteed by Ms. Kou Mortgage over the Company’s own securities account in respect of shares listed on the Stock Exchange	

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Type and Amount of Loan	Bank	Interest Rate	Duration	Collateral	Other Fees
Revolving Term Loan of HK\$4 million (“RTL1”)	Bank A	HIBOR + 2.25% per annum based on 1 week tenor	No fixed term but subject to Bank A’s overriding right of repayment on demand	Guaranteed by Ms. Kou Mortgage over the Company’s own securities account in respect of shares listed on the Stock Exchange	
Revolving Term Loan of HK\$3 million (“RTL2”)	Bank A	HIBOR + 2.25% per annum based on 1 week tenor	Matures on 6 October 2018	Guaranteed by Ms. Kou Mortgage over the Company’s own securities account in respect of shares listed on the Stock Exchange	Commitment fee of 0.35% per annum on the daily undrawn balance of RTL 2 if the average utilisation rate of the facility over a 12 month period is below 40% of RTL 2
Revolving Term Loan of HK\$31 million (“RTL3”)	Bank A	HIBOR + 2.25% per annum based on 1 week tenor	Matures on 6 October 2018	Guaranteed by Ms. Kou Legal charge over Offices A, E & F on 11th Floor of Yardley Commercial Building, No.3 Connaught Road West, Hong Kong Legal charge over Flat D2 on 9th Floor, King’s View Court, Nos. 901-907 King’s Road, Hong Kong	Commitment fee of 0.35% per annum on the daily undrawn balance of RTL 3 if the average utilisation rate of the facility over a 12 month period is below 40% of RTL 3
Overdraft of HK\$10 million (“OD2”)	Bank A	Hong Kong prime rate or such rate as Bank A may determine from time to time, payable in arrears on a monthly basis	No fixed term but subject to Bank A’s overriding right of repayment on demand	Guaranteed by Ms. Kou Mortgage over the Company’s own securities account in respect of shares listed on the Stock Exchange	

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Type and Amount of Loan	Bank	Interest Rate	Duration	Collateral	Other Fees
Revolving Term Loan of HK\$25 million (“RTL4”)	Bank A	HIBOR + 2.25% per annum based on 1 week tenor	Matures on 6 October 2018	Guaranteed by Ms. Kou Mortgage over the client’s securities account in respect of shares listed on the Stock Exchange	Commitment fee of 0.35% per annum on the daily undrawn balance of RTL 4 if the average utilisation rate of the facility over a 12 month period is below 40% of RTL 4
Revolving Term Loan of HK\$25 million (“RTL5”)	Bank A	HIBOR + 2.25% per annum based on 1 week tenor	No fixed term but subject to Bank A’s overriding right of repayment on demand	Guaranteed by Ms. Kou Mortgage over the clients’ securities account in respect of shares listed on the Stock Exchange	
Overdraft of HK\$2 million (“OD3”)	Bank A	Hong Kong prime rate + 0.5% per annum or such other rate Bank A may determine from time to time, payable in arrears on a monthly basis	No fixed term but subject to Bank A’s overriding right of repayment on demand	Guaranteed by Ms. Kou	
Revolving Loan and Overdraft of HK\$72 million	Bank B	For revolving loan, HIBOR + 1.9% per annum based on 1 week tenor For overdraft, the higher of HIBOR+2.3% per annum and HKD Prime Rate quoted by Bank B. For overdrawn balance in excess of the overdraft limit, the higher of HIBOR+8% and HKD Prime Rate quoted by Bank B +8% per annum	Subject to review on 31 May 2018	Guaranteed by Ms. Kou	Review fee of HKD20,000

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Margin finance monitoring and call

It is the responsibility of our settlement department staff to monitor clients' margin accounts to ensure the implementation of our margin financing policy and the compliance with the relevant regulations of governing bodies. Staff from our settlement department will generate a margin position report ("MPR") in respect of our margin accounts which is reviewed by our compliance officer on a daily basis. Based on the MPR, our compliance officer prepares the list of top up reminders and margin call records for our settlement department which distributes them to the director of operations department (back office) and customer service officer or the self-employed account executive.

We generally we monitor our margin accounts as follows:

Loan-to-value ratio¹

In the case the collateral has a lending ratio of over 50%, and the loan-to-value ratio is 60% or above and below 70%

In the case the collateral has a lending ratio of not more than 50%, and the loan-to-value ratio is 50% or above and below 60%

In the case the collateral has a lending ratio of over 50%, and the loan-to-value ratio is 70% or above and below 80%

In the case the collateral has a lending ratio of not more than 50%, and the loan-to-value ratio is 60% or above, and below 70%

In the case the collateral has a lending ratio of over 50%, and the loan-to-value ratio is 80% or above, or during stock market crash

In the case the collateral has a lending ratio of not more than 50%, and the loan-to-value ratio is 70% or above, or during stock market crash

Action to be done

Our compliance officer will issue a top-up reminder to our customer service officer or self-employed account executives (as the case may be) to contact clients to bring the loan-to-value ratio back to our acceptable level.

Our customer service officer or self-employed account executives (as the case may be) will issue margin call via phone call and request such client to fulfil the margin call either by depositing additional funds, sell the securities, pledging additional securities to top up the market value of pledged securities and/or providing further security to cover any shortfall to bring the loan-to-value ratio back to our acceptable level within a maximum of two days failing which our dealing department will execute the margin call by conducting forced sale of the underlying collaterals.

Our customer service officer or self-employed account executives (as the case may be) will issue margin call via phone call and request such client to fulfil the margin call either by depositing additional funds, sell the securities, pledging additional securities to top up the market value of pledged securities and/or providing further security to cover any shortfall to bring the loan-to-value ratio back to our acceptable level by 3:30pm the latest within the same day failing which our dealing department will execute the forced sale of the underlying collateral.

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Note:

1. Loan-to-value ratio means the ratio of outstanding margin loan to the value of the collateral of the relevant margin account client.

We had made in aggregate 228 and 208 margin calls to clients during the years ended 31 December 2016 and 2017, respectively. During the Track Record Period, we carried out three forced sales involving a total transactional value of HK\$392,323. We did not suffer any loss from the forced sale transactions. We had not made any provisions for bad debts in relation to financing services during the Track Record Period.

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Follow-up actions on top-up reminders and margin call

Our customer service officer or self-employed account executives report the follow-up actions in respect of top-up reminders and margin calls to the director of our operations department (back office) who records the actions taken (i.e. funds deposit, sell order, etc.) for our compliance officer.

Under our operations manual, unless specifically approved by our chief operating officer, margin financing clients being issued with a top-up reminder are restricted from placing further buy orders unless he or she tops up his or her margin account such that the loan-to-value ratio falls to our acceptable level, which is normally 60%. Our director of operations department (front office) is required to ensure that no buy order will be executed for such clients before restoration of their margin level.

Further, subsequent to the margin call, our director of operations department (front office) is required to review the margin call record, check with our settlement department whether the margin accounts have been settled during the specified timeframe and determine whether forced sale of the underlying collateral should be conducted. Both our dealing department and our compliance officer will keep detailed records of the case history of margin calls for each individual client.

Exception handling

After making margin calls, and upon request by the relevant clients, we may at times extend the time for clients to deposit funds into or sell securities in their margin account to top up the shortfalls, delay subsequent margin calls, increase loan-to-value ratios that the relevant clients are subject to, or revise the maximum loan amounts available to them. Our decision is made on a case-by-case basis, and subject to the approval of our chief executive officer and chief operating officer, after assessment on various factors, such as the recoverability of the margin loans, the quality of the collaterals (such as its liquidity and price), the prevailing market conditions, the potential impact of forced sale on the market price of the collateral, potential loss that may arise from the forced sale, the trading history and credit profile of the relevant client, and whether any additional collateral or financial comfort or further security the relevant client is able to make available to us.

The Group will continue to make margin calls where margin accounts of the relevant clients exceed the increased loan-to-value ratios or revised maximum margin loan amounts.

The table below summarises the range of actual loan-to-value ratios of our margin clients as at/for the years indicated:

	31 December	
	2016	2017
Year-end loan-to-value ratio on an individual basis (<i>Note 1</i>) as at	6.8%-84.7%	3.2%-74.2%
Day-end loan-to-value ratio on an individual basis (<i>Note 2</i>) for the year ended	1.1%-127.5%	0.3%-118.2%
Average day-end loan-to-value ratio on an individual basis (<i>Note 3</i>) for the year ended	41.0%	41.7%

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Notes:

- (1) Such ratio is calculated based on the highest and lowest loan-to-value ratio of individual margin account recorded as at the end date of the relevant year (without taking into consideration the accounts with margin loan balance below HK\$100,000 (the “**Excluded Accounts**”), the accounts which had been forced sold, the accounts with particular stock being suspended as at that date, the inclusion of such accounts would lead to distorted result of loan-to-value ratio presented). As at 31 December 2016 and 31 December 2017, the total balance of the margin loan receivables of the Excluded Accounts amounted to HK\$1.3 million and HK\$0.9 million respectively, representing 1.6% and 0.9% of the total margin loan balance as at the same date. For the year ended 31 December 2016 and 2017, we carried out three forced sales involving a total transactional value of HK\$392,323. We did not suffer any loss from the forced sale transactions. As at 31 December 2016 and 31 December 2017, the total margin loan balance with particular stock being suspended as at that date amounted to HK\$47,464 and HK\$43,071, respectively, accounting for 0.1% and 0.0% of our total outstanding margin loans as at the same date.
- (2) Such ratio is calculated based on the highest and lowest loan-to-value ratio of individual margin account recorded as at the day-end of each trading day of the relevant year (without taking into consideration the Excluded Accounts, the accounts which had been forced sold, the accounts with particular stock being suspended as at that date, the inclusion of such accounts would lead to distorted result of loan-to-value ratio presented).
- (3) Such ratio is calculated based on the day-end actual loan-to-value ratio of all margin accounts on an individual basis (without taking into consideration the Excluded Accounts, the accounts which had been forced sold, the accounts with particular stock being suspended as at that date, the inclusion of such accounts would lead to distorted result of loan-to-value ratio presented) of all trading days during the relevant year divided by the number of such margin accounts.

The actual day-end loan-to-value 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 loan-to-value ratios on an individual basis for the years ended 31 December 2016 and 2017, which were primarily attributed to market volatility during the same period, leading to a larger degree of fluctuation of the day-end market value of the relevant listed securities pledged as collateral.

During the Track Record Period and up to 31 March 2018, there were instances where the day-end loan-to-value ratios of margin accounts exceeded 70% (the “**assigned ratio**”). We had issued margin calls to these clients in accordance with our operations manual and on limited occasions, subject to the request of relevant clients, we extended the time for them to deposit funds into or sell securities in their margin accounts to top up the shortfalls, delayed subsequent margin calls, increased loan-to-value ratios that they were subject to, or revised the maximum loan amounts available to them after making assessment as mentioned above. During the years ended 31 December 2016 and 2017 and the period from 1 January 2018 up to 31 March 2018, we offered the above accommodations on 44, 40 and 8 instances, respectively, to 9, 8 and 6 clients, respectively, and the average margin loan balance due from them was HK\$1.0 million, HK\$1.2 million and HK\$1.5 million, respectively. All such clients were individuals from Hong Kong and the PRC, with over one year’s trading history with us and in some cases over five years. During the years ended 31 December 2016 and 2017, and the period from 1 January 2018 up to 31 March 2018, we recorded shortfalls with respect to the margin loans made to such clients (i.e. the amount of margin loan balance exceeds 100% of the market value of collateral of the relevant client as at the relevant dates), of which the largest aggregated margin shortfalls was HK\$0.1 million, HK\$0.1 million and HK\$nil, respectively, accounting for 0.1%, 0.2%

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and nil% of our total outstanding margin loans as at the relevant dates. Our operations departments (front and back office) closely monitored the positions of the collaterals held by such clients. Such clients did not overlap with our top five margin clients as at the year end dates during the Track Record Period.

During the Track Record Period and up to the Latest Practicable Date, no margin clients were allowed to purchase further securities unless they had deposited further funds or sold securities to restore their loan-to-value ratio to an acceptable level.

Forced Sale

If a client fails to deposit additional funds, sell the securities, pledge additional securities to top up the market value of the collaterals, such that the loan-to-value ratio continues to be 70% or above, we have the right to mandatorily liquidate the securities collateral at the market price available. In such circumstances, our dealing department shall take forced sale action and the liquidation will be reported to a Responsible Officer upon execution. In accordance with Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules (Chapter 571Q of the laws of Hong Kong), a daily statement will be sent to clients no later than the end of the second business day after the forced sale and the proceeds of sale will be used to cover the debt balance or shortfall. During the Track Record Period, we carried out three forced sales involving securities listed on the Main Board and GEM at a total transactional value of HK\$392,323. We did not suffer any loss from these forced sale transactions. From 1 January 2018 up to the Latest Practicable Date, we carried out two forced sale transactions involving securities listed on GEM at a total transactional value of HK\$131,302 without suffering any loss.

As our financing services continues to grow, please refer to the sub-section headed “Risk factors — 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 the associated risks relating to this business segment. Please also refer to the sub-section headed “Business — Risk management and internal control — Risk management relating to our financing business” for further details of our risk management measures.

(iii) Asset management services

We commenced our asset management services in 2004 when we were appointed as the fund manager of our clients to manage portfolios on their behalf under discretionary accounts. As at 31 December 2016 and 31 December 2017, we had 26 and 24 clients, respectively, receiving our asset management services with a total AUM of HK\$213.1 million and HK\$207.7 million. Our asset management clients are mainly high net worth clients. As at 31 December 2017, the average remaining term of discretionary accounts was approximately 3.6 years. We charge an annual management fee of up to 1% of initial investment amount and a periodic performance fee of up to 25% of increase in net asset value of AUM. For the years ended 31 December 2016 and 2017, we recognised asset management fees of HK\$0.7 million and HK\$2.2 million, respectively.

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The majority of our asset management clients are applicants of the CIES. Under the CIES, applicants who meet certain criteria and have the financial means to invest in Hong Kong may apply to be a permanent resident after seven years of continuous stay and maintaining their capital commitment in Hong Kong as required in the CIES. As at 31 December 2017, we had 20 CIES clients receiving our asset management services with a total AUM of HK\$200.3 million.

The following table sets forth a breakdown of the movement, average term and renewals of our asset management clients during the Track Record Period and up to the Latest Practicable Date:

	As at or for the year ended 31 December				As at or for the period ended on the Latest Practicable Date	
	2016		2017			
	<i>CIES</i>	<i>non-CIES</i>	<i>CIES</i>	<i>non-CIES</i>		
Number of asset management clients at the beginning of the year/period	17	11	20	6	20	4
Number of asset management client accounts opened during year/period	3	2	1	—	—	1
Number of asset management client accounts closed during year/period	—	(7)	(1)	(2)	—	—
Number of asset management clients at the end of the year/period	20	6	20	4	20	5
Average term of the asset management service agreements (as at the year/period end) (years)	3.4	2.6	3.9	2.1	4.2	1.9
Average remaining term of the asset management service agreements (as at the year/period end)(years)	3.7	1.7	3.1	1.1	2.8	0.9
Number of asset management clients that renewed their accounts during year/period	1	2	5	2	—	—
Average remaining term of renewing asset management clients (as at the year/period end) (years)	3.1	0.7	1.2	0.6	N/A ^{Note}	N/A ^{Note}

Note: No asset management clients renewed their accounts with us during this period.

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The following table sets out the number of clients that have obtained Hong Kong permanent residency and the number of such clients that have maintained their accounts with us after obtaining such status for each year of the Track Record Period and up to the Latest Practicable Date:

	Year ended 31 December 2016	Year ended 31 December 2017	Period from 1 January 2018 up to the Latest Practicable Date
Number of CIES clients that have obtained permanent residency status	0	3 ^{Note 1}	0
Number of such clients that have maintained their accounts with our Group after obtaining such status	N/A	3 ^{Note 2}	N/A

Notes:

1. Of the CIES clients that obtained permanent residency status, two have become permanent citizens and one still holds unconditional stay status.
2. One CIES client maintained his asset management account with us after obtaining permanent residency status. All three clients maintain cash or margin accounts with us as at the Latest Practicable Date.

Our Directors are of the view that we can attract potential clients awaiting CIES approval for its asset management service business by taking the following measures:

Build partnerships with immigration agencies

Our Directors believe that developing cross referral relationships with immigration agencies will create synergy effect to allow us to gain access to the pool of CIES applicants being managed by such immigration agencies and promote our asset management services to them, whereas we can create added value by referring clients who require immigration assistance to such agencies. We intend to pursue closer relationships with a variety of immigration agencies to increase our market reach to potential CIES applicants.

Word of mouth

Our Directors believe that through our efforts in asset management and customer service, a positive image of our services will be created, which would encourage our existing clients to recommend our Group to potential CIES clients by word of mouth.

Brand building

Our Directors believe that we have been successfully using various marketing channels to establish our brand name within the financial services industry. Advertisements on TV and public transport are aimed at increasing the exposure of our Group to the public as well as potential CIES clients.

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[REDACTED] *status*

The [REDACTED] status will help building confidence among potential CIES clients as compared to local private companies.

From 31 December 2017 up to the Latest Practicable Date, the Group has not secured new CIES clients. As at the Latest Practicable Date, the Group is in negotiations to offer its asset management services with some potential CIES clients.

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, all of which are expected to expire on 23 April 2018 and 18 August 2018, respectively. Our Directors do not anticipate the need to offer such “loss protection” agreements in future.

We minimise the risk of loss to us by adopting more prudent investment strategies, we invest client money into more prudent debt/equity securities as well as monitoring the value of investments on a daily basis. Our provision for loss on such “loss protection” accounts decreased slightly from HK\$1.5 million as at 31 December 2016 to HK\$1.4 million as at 31 December 2017. As at 31 December 2017, the majority of client money of our “loss protection” clients was invested into bonds, whilst the remainder was predominantly invested in blue-chip and state-owned enterprise securities, as well as shares listed on the Hong Kong Stock Exchange. As at 31 December 2017, total AUM of the two “loss protection” clients was HK\$11.6 million. Our Directors are of the view that the risk of loss to us was under our close monitoring and we have made sufficient provisions for loss to minimise the effect on our results of operation. For further details, please refer to the paragraph headed “Risk factors — We have guaranteed the performance of AUM for certain clients, and poor performance will have a significant adverse effect on our financial results” in this document.

With an aim to reinforce the overall development of our businesses, we have been dedicating more resources and effort to develop our asset management services by strengthening the manpower of our asset management team.

Victory Securities (HK) has also set up an investment committee to (i) set and review the basket of securities which our discretionary accounts are eligible to buy; (ii) decide the asset allocations; (iii) approve or reject the investment proposals prepared by the asset management team; and (iv) review the performance and compliance matters of our discretionary accounts. The members of the investment committee will have regular meetings on a weekly basis. The investment committee comprises Ms. Kou, Mr. Chiu, Mr. Sze Tung and Dr. Li Ning. For the relevant qualifications and experiences of Ms. Kou and Mr. Chiu, please refer to the section headed “Directors, senior management and staff” in this document. As at 31 December 2017, Mr. Sze Tung and Dr. Li Ning possessed over 13 and 6 years of experience, respectively in the financial industry.

As recognition of our effort of asset management services, we were awarded “the Best Wealth Management Award” (最佳環球投資券商大獎) in 2015, “the Best Wealth Management Gold Award” (最佳財富管理金獎) in 2014, “the Best Wealth Management Award” (最佳財富管理獎) in 2013 by

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the Metro Awards for Banking & Finance Corporations (都市盛世銀行及金融服務企業獎), “the Best Asset Management Company” (優質資產管理) by Capital Weekly (資本一周) and “the Best Asset Management Award” (最佳資產管理證券商) by Global Commercial Newspapers Union (全球商報聯盟) and Hong Kong Commercial Daily (香港商報) in 2010.

CLIENTS

Our clients mainly comprise corporate, institutional and retail clients as well as high volume day traders from Hong Kong and the PRC. During the Track Record Period, our major clients were mainly high net worth individuals based in Hong Kong and the PRC. Our clients are typically referred to us by our licensed employee or self-employed account executives or by existing clients.

For the years ended 31 December 2016 and 2017, our top five largest clients comprised of securities broking clients. For the years ended 31 December 2016 and 2017, revenue attributable to our top five largest clients, in aggregate, accounted for 24.5% and 24.5% of our total revenue, respectively. During the same year, our largest client accounted for 14.7% and 6.9% of our total revenue, respectively.

Our top five largest clients during the Track Record Period had between two to fourteen years of business relationship with us. During the Track Record Period, none of our Directors or their respective close associates or existing Shareholders who owned more than 5% of our Company’s issued share capital had an interest in our top five largest clients. Our top five largest clients for the years ended 31 December 2016 and 2017 were Independent Third Parties.

We had not received any material complaints from our clients during the Track Record Period.

Transactions with connected persons

During the Track Record Period, we conducted various business activities with our connected persons. The table below sets forth the breakdown of revenue by business activities contributed by our connected persons for the years ended 31 December 2016 and 2017.

	Year ended 31 December			
	2016		2017	
	HK\$'000	(%)	HK\$'000	(%)
Securities broking services	122	55.7	90	36.9
Financing services	90	41.1	154	63.1
Asset management services	7	3.2	—	—
Total	219	100.0	244	100.0

Revenue generated from our connected persons accounted for 1.0% and 0.4% of our total revenue for the years ended 31 December 2016 and 2017, respectively.

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For transactions between our connected persons and us during the Track Record Period which would continue after the [REDACTED], please refer to the section headed “Connected transactions” in this document.

Transactions involving licensed employees and their associates

Pursuant to paragraph 12.2 of the Code of Conduct, employees should generally be required to deal through the licensed corporation which they are employed under. The table below sets out the breakdown of income by business activities from our licensed employees and their associates for the years ended 31 December 2016 and 2017.

	Year ended 31 December	
	2016	2017
Securities broking services revenue (HK\$'000)	263	625
Percentage of our securities broking services revenue	1.1%	1.3%
Financing services revenue (HK\$'000)	153	520
Percentage of our financing services revenue	2.7%	7.2%
Asset management services revenue (HK\$'000)	7	—
Percentage of our asset management services revenue	1.0%	—
Total (HK\$'000)	<u>423</u>	<u>1,145</u>
Percentage of our total revenue	1.4%	2.0%

SUPPLIERS

Due to the nature of our principal business activities, information about our suppliers would be of limited or no value to investors in making an investment decision, and therefore disclosure of which is not required under paragraph 28(1)(b) of Appendix 1A of the GEM Listing Rules.

SALES AND MARKETING

Our sales and marketing function is handled by our marketing and sales department. Under the supervision of our director of operations department (front office), our Licensed Representatives are responsible for sourcing new clients, opening client accounts, maintaining client relationships, promoting our services and handling clients' enquiries. The opening of client accounts is processed by Licensed Representatives and approved by a designated Responsible Officer. Licensed Representatives also regularly contact clients to maintain good business relationship and to expand network by soliciting new clients through referrals from existing clients.

We have a director of marketing and sales, who has implemented marketing and sales activities such as holding investment seminars, placing advertisements through various media, to promote our corporate image and increase brand awareness.

Going forward, we plan to continue to promote our corporate image and expand our business network in the above manner. Our Directors believe that the [REDACTED] will also help promote our corporate image and enhance public awareness towards our brand of services, which will enable us to attract new clients.

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RESEARCH AND DEVELOPMENT

During the Track Record Period and up to the Latest Practicable Date, we did not engage in any research and development activity.

REGULATORY REQUIREMENTS

Victory Securities (HK) 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 licenses and trading rights currently held by Victory Securities (HK):

- (a) License under SFO to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 9 (asset management, under the condition that it shall not provide a service of managing a portfolio of futures contracts for another person) regulated activities
- (b) Stock Exchange Participant (Participant ID: 01445)
- (c) Stock Exchange Trading Right (Certificate No. R0607)
- (d) Stock Exchange Trading Right (Certificate No. R1667)
- (e) Stock Exchange China Connect Exchange Participant (Participant ID: 01445)
- (f) HKSCC China Connect Clearing Participant (Participant ID: B01445)
- (g) HKSCC Direct Clearing Participant (Participant ID: B01445)

The above licenses and trading rights of Victory Securities (HK) have no expiry date and will remain valid unless they are suspended or revoked by the SFC, the Stock Exchange or the HKSCC (as the case may be). Our operation is also governed by rules and regulations introduced and administered by the SFC and Stock Exchange from time to time.

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The number of our Responsible Officers for our Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 9 (asset management, under the condition that it shall not provide a service of managing a portfolio of futures contracts for another person) regulated activities as at 31 December 2017 were altogether three. The table below sets forth the breakdown of our Responsible Officers as at 31 December 2017:

	Type 1 (dealing in securities)	Type 2 (dealing in futures contracts)	Type 4 (advising on securities)	Type 9 (asset management)
No. of Responsible Officers	2	2	3	3

The table below sets out the number of Licensed Representatives for each type of regulated activity as at 31 December 2017:

	Type 1 (dealing in securities)	Type 2 (dealing in futures contracts)	Type 4 (advising on securities)	Type 9 (asset management)
No. of Licensed Representatives	48	6	17	12

Note: Respective persons may hold multiple licenses for different regulated activities.

Our Directors have confirmed that we have obtained all material licenses, permits or certificates necessary to conduct our operations from the relevant governmental and regulatory bodies in Hong Kong and we have complied, to a material extent, with our applicable laws, regulations, rules, codes and guidelines in Hong Kong in connection with the business and operation during that Track Record Period. Details of the regulatory and licensing requirements are disclosed under the section headed “Regulatory overview” in this document.

COMPETITIVE LANDSCAPE

The financial services sector in Hong Kong is highly competitive due to the vast number of market players offering securities broking services, financing services and asset management services. Our Directors believe our main competitors are retail banks and other financial institutions who compete for the similar client base as ours. Details of the competition that we currently face and will continue to face are set out under the section headed “Industry overview” in this document.

Securities broking services

The financial services industry of Hong Kong is a highly competitive market. As at 31 December 2017, there were 669 trading right holders registered in the Hong Kong Exchanges and Clearing Limited, which comprised 622 trading Stock Exchange Participants, 32 non-trading Stock Exchange Participants and 15 non-exchange participants. New participants may enter the industry as long as they obtain the requisite licenses and permits.

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In order to trade securities through the trading facilities of the Stock Exchange, 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 FRR and specified by the SFC. The Stock Exchange Participants are classified into three categories of participants by the Stock Exchange quarterly in terms of their respective share of the total market turnover; Category A for the top 14 firms, Category B for the 15th to 65th largest firms and Category C for firms ranked 66th and below. [REDACTED]

Financing services

According to the data extracted from the SFC annual reports as illustrated in the section headed “Industry overview” in this document, the number of active margin clients increased from 139,375 in 2012 to 267,132 in 2016, representing an increase of approximately 91.5%. Following the increase in the number of active margin clients, the amounts of receivables from margin clients also showed a general upward trend and increased from HK\$58.8 billion in 2012 to HK\$171.6 billion in 2016, representing an increase of 191.8%.

Asset management services

We face keen competition from different asset management firms, including 1,348 licensed corporations and 9,746 licensed individuals for Type 9 (asset management) regulated activity as at 31 March 2017 according to the statistics of the SFC.

RISK MANAGEMENT AND INTERNAL CONTROL

Under the Code of Conduct, a licensed corporation 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 clients in performing his or its contractual obligations, which mainly exist in our securities brokerage and financing businesses; (b) liquidity risk

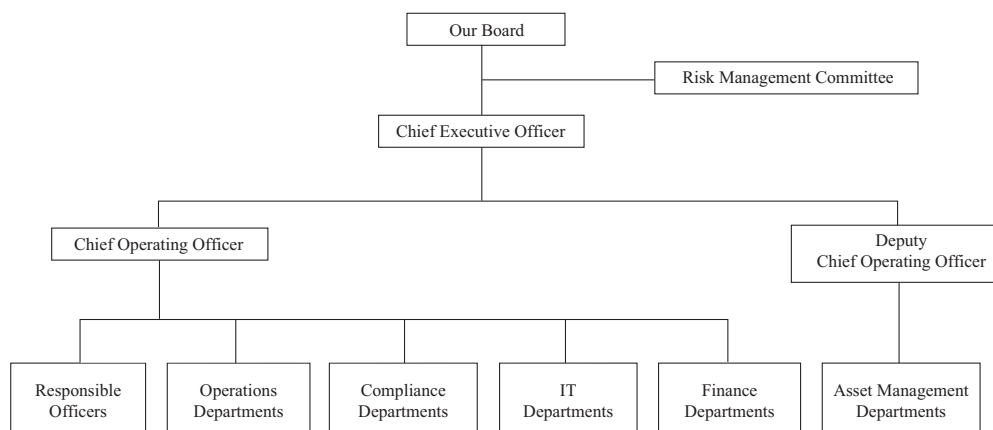
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arising from our inability to meet our payment obligations when they fall due under normal and stress circumstances; (c) operational risks arising from improper operation or errors in executing transactions; (d) regulatory risks of being subject to 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 our operations manual, which contain credit policies, operating procedures and other internal control measures. A summary of our risk management structure and key internal control policies and procedures is set out below.

Risk management structure

We have established a multi-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.

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Risk management committee

We established the risk management committee in 2017, which as at the Latest Practicable Date comprised our executive Director and chief operating officer, namely, Mr. Chiu, our executive Director, namely Mr. Chan Pui Chuen, our deputy chief operating officer, namely, Mr. Zhou Lele, our financial controller, namely, Mr. Wan Tsun Kan, and our IT manager, namely, Mr. Wong Man Fai. Mr. Wan Tsun Kan is a member of the Hong Kong Institute of Certified Public Accountants and has over 4 years of experience in the accounting or financial services industry. For the relevant qualifications and experiences of other committee members, please refer to the section headed “Directors, senior management and staff” in this document.

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

Responsible Officers

As at 31 December 2017, we had a total of [three] 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 behaviour of dealers and traders; and (vi) controlling and monitoring compliance issues and solving dealing problems.

Operations departments

Our operations departments (front office and back office) 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 the Securities and Futures (Client Securities) Rules, and that there is no misappropriation of client money and securities, thereby managing our regulatory and legal risks in this regard.

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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 December 2017, our compliance department consisted of three professional staff, among which one had over ten years of experience in legal compliance or related discipline.

IT department

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

Finance department

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

Monitoring and management of major risks

Credit risks

We manage credit risks primarily through the following measures:

- our senior management comprises Ms. Kou, Mr. Chiu and Mr. Zhou Lele;
- we have implemented “know-your-client” procedures and credit assessment to ascertain the background of our potential clients in our account opening process; For further details of our “know-your-client” procedures, please refer to the sub-section headed “Risk management and internal control — Risk management and internal control measures for our securities brokerage business — Accounts opening” in this document;

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- we perform credit assessment on potential clients especially in our financing business, and require our margin clients to provide deposit or acceptable collateral (as the case may be) to minimise our exposure;
- we closely monitor the loan-to-value ratio of our margin clients and take appropriate action to recover or minimise our loss where we foresee that our client may default in his or its obligation;
- our senior management comprising our Margin Financing Approver, our compliance department and the relevant account manager work together on a daily basis to evaluate our clients’ collaterals provided and repayment abilities in our daily operation;
- we have policy in place with respect to the trading limit, credit line and credit period granted to margin clients, which are subject to our on-going review and revision; and
- we conduct daily 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. Our risk management committee conducts a stress test on a daily basis so as to monitor the maximum risk exposure level we are able to bear. A daily stress test report has to be submitted to our senior management for periodic review of our capital stress level. We also compile a monthly FRR report prepared in accordance with the calculation methods prescribed by the FRR which will, after review by our Responsible Officer, be submitted to the SFC by electronic means within 21 days after the end of the respective month. Monthly financial statement analysis and variance comparison against budget are performed by the management to identify any potential capital shortfall;
- we meet our funding needs 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 our margin loans on an aggregate and individual loan basis.

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Risks associated with dealings

We manage risks associated with dealings primarily through the following measures:

- our Responsible Officers and senior management are responsible for overseeing our day-to-day operations, controlling and monitoring compliance issues and solving dealing problems;
- we have formulated operations manual 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 director of our operations department (front office) as soon as they are aware of any error trade, and close out error position in accordance with our internal policy;
- we require available 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 one year; and
- we provide regular training and formulate contingency plans to increase the capability of our staff to manage operational risks in emergency situations, such as system breakdown or power failure.

Regulatory and legal risks

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

- our compliance department conducts checks and inspections on our business units and reports irregularities to our senior management and the relevant department head for further action;
- we have formulated operations manual 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, we conduct a stress test on a daily basis in accordance with the requirements under the FRR to compute our liquid capital position so as to ensure that timely information is conveyed to our management. In addition, we submit to the SFC a monthly FRR report prepared in accordance with the calculation methods prescribed by the FRR and reviewed by our Responsible Officer within 21 days after the end of the respective month;

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- 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 on a daily basis and takes remedial actions as soon as we notice any discrepancy;
- we have implemented "know-your-client" procedures across our business functions. For example, our dealing staff and self-employed account executives will conduct background and credit checks and require appropriate address proofs during the account opening process for our securities brokerage business and financing business;
- through our surveillance system, we closely monitor and detect unusual and irregular trading activities, and generate exceptional trade report to our compliance department and senior management comprising our Responsible Officers for further action;
- our compliance department closely monitor our licensing status and conditions. 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 a complaints officer who is the head of our compliance department under our compliance department for handling complaints received from our clients in relation to our regulated activities;
- our compliance department arranges for continuous professional training on topics such as anti-money laundering for our staff from time to time; and
- our Responsible officer shall notify the SFC in writing within one business day of the occurrence of the following events, namely:
 - the liquid capital has fallen to less than 120% of the required liquid capital;
 - the liquid capital has fallen to less than 50% of the liquid capital of the latest FRR report submitted to the SFC;
 - credit exposure reached over 80% of the total credit limit available from the bank for two consecutive weeks;
 - the total amount of funds loans, advance payment, credit facilities and other financial facilities available from the banks exceed the total credit limit from these facilities; and
 - being or will be unable to repay in full any part of or all the amount due from or being called upon to pay by any creditor, credit facility provider or financial facility provider for three consecutive business days.

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Market risks

We manage market risks primarily through the following measures:

- our senior management regularly review our balance sheet, profit and loss accounts and credit granted to our clients to identify our risk exposure, especially during adverse market movements;
- we 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 committee is responsible for formulating investment policies and guidelines and our fund managers are responsible for executing investment decisions; and
- our director of asset management monitors our daily asset management activities and reviews the investment strategy and scope, asset allocation and selection of asset class.

Risk management and internal control measures for our securities 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 client to complete our account opening procedures to verify the identity of the account owner and ultimate beneficial owner. Our account opening procedures require our licensed employees or self-employed account executive to meet the client face-to-face witness the signing of agreements and obtain copies of identification, address proof, and/or corporate documents such as Certificate of Incorporation and Memorandum and Articles of Association etc). For corporate accounts, we may also conduct company searches at public registries. Our account opening staff is also required to conduct searches to identify whether the potential client is a politically exposed person. To ensure our licensed employee or self-employed account executive comply with the above, they are required to complete a checklist and the relevant account opening documents have to be reviewed by our compliance officer, and in the case of a discretionary account, such account has to be approved by our staff of the grade of chief operating officer or above. Please refer to the sub-section headed “Business — Risk management and internal control — Risk management and internal control measures for our securities brokerage business — Discretionary account” for more details as to discretionary accounts.

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Risk disclosure : Before we sign the client agreement, our licensed employee or self-employed account executive shall explain to our clients the terms of the agreement, the rights and obligations of the parties, the maximum compensation to the clients and the risks involved in securities investment and using our trading platforms.

Credit policy : We may set a trading limit for cash account clients on a case-by-case basis to minimise our exposure between trade execution and settlement. For clients referred by our licensed employees and self-employed account executives, the initial trading limit is pre-set to be HK\$200,000. The initial trading limit for corporate clients is pre-set to be nil before they deposit cash into the cash account.

Clients may apply to the director of operations department (front office) to increase the trading limit. We take into account the following factors in approving the trading limit:

- the maximum trading limit is set to be twice the value of assets in the client's cash account but in any case, should not be more than HK\$2 million unless specifically approved by the senior management;
- whereas high risk securities occupy 50% of above of the client's portfolio, his or her trading limit should not be more than HK\$1 million; and
- whereas the whole portfolio of the client comprises high risk securities, his or her trading limit should not be more than HK\$200,000 and he or she must settle his or her trade within the same day.

Due authorisation for client account operation : Operation of an account by a person other than the account holder is not allowed unless proper authorisation has been obtained in advance. The authorisation agreement has to be signed by both the account holder and the authorised person in front of our licensed employee and self-employed account executive who shall explain to them the scope and consequence of such authorisation and witness the signatures. In accordance with our standing authorisation policy, save for professional investors (as defined under the SFO), the standing authorisation in relation to our client's securities, collaterals and funds is no longer than twelve months. Such standing authorisation may be renewed on an annual basis if (i) we have issued the renewal notice not less than 14 days after expiry, (ii) we have not received any objection from our client by the expiry date and (iii) we confirm the renewal of the standing authority within 7 days from the expiry date. For easy management purposes the expiry date of all of our client's standing authority is set to be 31 December.

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Discretionary account : In circumstances where our client authorises us or our Licensed Representatives to manage his account we classify such account as a “discretionary account”. Our policy in relation to standing authority for cash account as mentioned above in the sub-section headed “Business — Risk management and internal control — Risk management and internal control measures for our securities brokerage business — Due authorisation for client account operation” would apply save the scope of authorisation is limited to carrying out securities buy/sell trading and issuing withdrawal order whereby the payee is the account holder, that is, the client.

We have a hierarchical system for monitoring the operation of our discretionary accounts. Our compliance officer is responsible for maintain a register of discretionary accounts, a copy of which is submitted regularly to the chief operating officer for monitoring purposes. Our compliance officer also conducts internal audit of the discretionary account from time to time and prepare a report for review by our chief operating officer.

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 our client’s telephone calls, our online trading platform or the front desk at our office through a duly completed and signed dealing ticket by our client. In accordance with our operations manual, such client orders must be confirmed to clients using our telephone recording system or processed through our online trading platform. Particularly, if the instruction is given by way of telephone, we require the person taking the order to confirm with the client by return call.

Our staff must follow our designated taking procedures to ensure client orders are executed promptly and in accordance with our client’s instructions. Particularly we require the trading instructions together with details of client’s account number, buy or sell instructions, stock code or stock name, number of shares involved and the price of shares be input into our trading system promptly. In relation to the trading instructions of high risk securities including options and shares encountering price increase or drop of 20% or above within the same day, we would check whether the client maintains sufficient cash or securities in his account, particularly where his or her instructions is to buy HK\$50,000 or above of such securities, we require him/her to have maintained in his account cash and/or securities in total market value equivalent to 50% or above of the purchase amount. If our client does not maintain any securities or cash balance in his account, we would limit his purchase amount to HK\$100,000 and he must close his position within the same day.

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Our Licensed Representatives must inform our clients immediately after their orders have been successfully placed and would endeavour to confirm promptly with the client the essential features of the transaction in accordance with paragraph 8.2 of the Code of Conduct.

Trading records shall be reviewed during noon and after trading hours on each trading day of the Stock Exchange and will be recorded and backed up on a daily basis. Our director of operations department (front office) must sign on the trading journal after reviewing the trading records. Trading error shall be promptly reported and rectified in accordance with our internal policy. We require our staff to fill in the error and rectification report setting out the error contents which is filed with the director of operations department (front office). If it is an error between our Licensed Representatives and our client, we allow the matter be resolved between them but the completed trade transaction must be recorded in the client’s account or error trade account (as the case may be). If it is an error between our trader and our client, our director of operations department (front office) shall decide on the rectification measures after listening to the telephone record. The same procedures apply in respect of electronic IPO subscription transactions.

Transaction monitoring : Our surveillance system monitors client transactions on a real-time basis and detect unusual or irregular trading activities. The system adopts pattern recognition for detection of transaction activities that may be intended to manipulate markets in financial instruments. For example, the system generates alerts where a client has placed significant buy and sell trades within a short time period or where a trader has placed large orders in terms of volume or converted value in a specific instrument. For post-trade monitoring, exceptional trade report is generated to our compliance department and relevant Responsible Officers or department head for further analysis and investigation.

Account executives : Our self-employed 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 self-employed account executives are required to comply with the same set of internal control rules and measures that governs our licensed employees, 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 self-employed account executives are monitored by the same surveillance system described in “Risk Management and Internal Control — Risk management and internal control measures for our securities brokerage business — Transaction monitoring” above in this document which also detects unusual or irregular trading activities of our self-employed account executives.

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Risk management relating to our placing service business

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

- we have an 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;
- Our chief investment office analyst is responsible for generating a due diligence report in relation to the prospective engagement in a potential transaction, which analyses matters such as shareholders’ directors and senior management, balance sheet, statement of profit or loss, and statement of cash flow. Our compliance officer will be consulted if necessary. We may also contact the issuer’s director, company secretary or investor relations department for further understanding of the issuer. Our analyst will submit the report to the management and compliance officer for approval. Our compliance officer will also forward the report to any potential client;
- 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; and
- our compliance department and, in some cases, our chief operating officer are responsible for reviewing agreements relating to our placing service business.

Risk management relating to our financing business

Our senior management, chief operating officer and compliance officer are primarily responsible for monitoring the risks associated with this business segment. The primary risks faced by our 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 our financing business. Our senior management, chief operating officer and compliance officer act as the key persons to carry out day-to-day monitoring of our risks associated with this business segment and formulate and revise risk management policies and internal control measures in response to changing credit environment. Our operations department (back office) monitors the margin positions of our client and ensures appropriate actions be carried out in accordance with our operational manual. Please refer to the sub-section headed “Business — Our business model — (ii) Financing services” in this document for more details.

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- Risk disclosure* : Before we sign the client agreement, our licensed employee or self-employed account executive shall explain to our clients the terms of the agreement and the risks involved in applying for financing and consequence for failing to meet our margin calls.
- Credit assessment* : Our Margin Financing Approver is responsible for conducting credit assessment on our clients applying for margin accounts. In respect of margin loan, we also assess the market value, type, liquidity and volatility of securities and debt instruments offered as collateral in revising the list of eligible securities and debt instruments for financing.
- 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. We have in place an approval mechanism for extending credit line granted to our clients. Additionally, we set the maximum amount of margin loan (in respect of margin account) granted to a single client in our operations manual as a general guideline. Further, the margin loan limits are reviewed and adjusted, if necessary, by our Margin Financing Approver from time to time. Please refer to the sub-section headed “Business — Our business model — (ii) Financing services — Margin accounts” in this document for more details.
- Due authorisation for client account operation* : We require our margin clients to provide us standing authority for us to pledge the securities collaterals to our financing bank to obtain credit line for re-financing purposes.

We adopt the same policy in respect of standing authority from our margin financing clients as from our securities broking clients. Please refer to the sub-section headed “Business — Risk management and internal control — Risk management and internal control measures for our securities brokerage business - Due authorisation for client account operation” in this document for more details as to our policy in respect of standing authority from client.

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Collateral requirement : We require our margin account clients to provide us with collateral, generally in the form of equity securities and debt instruments listed on the Stock Exchange, sufficient to cover the loan amount when we grant the margin loan. We provide a list of shares qualified as collateral for our margin financing business and devise the corresponding lending ratio based on the average lending ratio set by our major banks. We update such list periodically or as soon as our major banks adjust their lending ratio. Whereas our senior management retains the absolute discretion to accept other marketable assets comprising securities traded on foreign exchanges and bonds on a case-by-case basis, we generally do not provide margin financing for warrants. Please refer to the sub-section headed “Business — Our business model — (ii) Financing services — Collaterals” in this document for more details.

Ongoing monitoring and forced liquidation : We monitor the loan-to-value ratio of client to which we provide margin financing on a regular basis. A MPR containing information including our client’s outstanding margin amount, value of the collateral (if any) and loan-to-value ratio will be generated by our operations department (back office) for review by our compliance officer on a daily basis.

Depending on the loan-to-value ratio, we will issue top-up reminder or margin call to our clients to carry out measures to restore the ratio to our acceptable level within our specified timeframe. The top-up reminders and margin call records are duly filed within our internal record system. In case no restoration action is done within our specified timeframe by our client under margin call, we are entitled to mandatorily liquidate and conduct forced sale of the securities collateral and apply the proceeds to reduce the loan amount so as to bring the loan-to-value ratio to our acceptable level. Please refer to the sub-sections headed “Margin finance monitoring and call”, “Follow-up actions on top-up reminders and margin call” and “Forced sale” in the sub-section headed “Business — Our business model — (ii) Financing services” in this document for more details.

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IPO financing : When deciding whether to offer financing for IPO subscription, we take into consideration the quality of such shares, market sentiment and investors’ reaction, and the availability of the bank facilities. Should we decide to finance the subscription of IPOs, we will determine the funding scale with reference to our liquidity positions and whether our major banks will offer the IPO financing as well as the interest rate. The maximum amount of loan that an individual client may obtain is 90% of the IPO subscription monies. Client that apply for IPO financing services must have an account with us and deposit no less than 10% of the IPO subscription monies. The IPO financing applications confirmed through our telephone record system or made via our online trading platform are irrevocable. If the cash deposited in the client’s account is insufficient to pay the subscription monies for the allocated IPO shares, handling fees and IPO financing loan interest, our client either liquidates the allocated IPO shares to repay the loan together with additional interest charged on such IPO financing loan, or settles the outstanding amount.

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 committee is responsible for advising on investment direction and strategies, reviewing asset allocations, making major investment decisions and setting authorisation limits on investment managers in investment activities;
- our investment committee comprised Ms. Kou, Mr. Chiu Mr. Sze Tung and Dr. Li Ning. For the relevant qualifications and experiences of Ms. Kou and Mr. Chiu, please refer to the section headed “Directors, senior management and staff” in this document. Mr. Sze Tung and Dr. Li Ning possessed over 13 and 6 years of experience, respectively in the financial industry.
- we have maintained a carefully selected “securities pool” for our investments based on research recommendations given by our asset management 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 fund rules that sets pre-determined limits to stop profit or loss in relation to any single security or an asset portfolio. We also set authorised 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 in order to avoid conflicts of interest;

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- we are required to assess the potential client’s financial condition, investment experience, risk preferences, so that we can recommend products or services suitable for the client’s risk appetite, we also require our clients to provide of the source of funds 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 funds at qualified commercial banks and authorised financial institutions to hold client funds i.e. bank trust accounts; and
- we monitor transaction activities on a timely basis and unusual trading activities shall be reported to our relevant Responsible Officers or department head and compliance department for review and taking further action.

Risk management relating to our proprietary trading business

The primary risks faced by our proprietary trading business include market risks, credit risks, operational risks, and legal and regulatory risks. We will manage the associated risks through the following policy and procedures governing our proprietary trading activities:

- Our trading and position limit is capped at 20% of our shareholders’ funds (shareholders’ equity)
- Recognized products that may be bought and sold are limited to any shares, ETFs, funds and bonds listed on any stock exchange under any currency approved by the SFC, and corporate bonds listed on a secondary market.
- our investment committee is responsible for advising on investment direction and strategies, reviewing asset allocations, making major investment decisions and setting authorisation limits on investment managers in investment activities. Our investment committee generally meets on a weekly basis;
- our investment committee comprised Ms. Kou, Mr. Chiu Mr. Sze Tung and Dr. Li Ning. For the relevant qualifications and experiences of Ms. Kou and Mr. Chiu, please refer to the section headed “Directors, senior management and staff” in this document. Mr. Sze Tung and Dr. Li Ning possessed over 13 and 6 years of experience, respectively in the financial industry.
- The limit of loss for investment portfolios is 30%.
- The procedure of execution of proprietary trading is the same as staff dealing to prevent any conflict of interest.
- Our chief operating officer conducts daily review after trading hours, which is one part of the routine monitoring procedure to ensure the relevant procedure to be effective. Our chief operating officer will report the proprietary trading position to the Board during its quarterly meetings. In the event the chief operating officer notes any material inconsistency between the investment decision of the investment committee and the proprietary trading conducted, he would refer the matter to the Board as soon as practicable for investigation.

Conflict of interest

Being a financial services firm with three major business segments, we recognise the importance of managing conflicts of interest in protecting the interest of our client and us. Conflicts of interest may arise between: (i) our various business units; (ii) our clients and us; (iii) our various clients; (iv) our employees and us; or (v) our clients and our employees.

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We have put in place policies prohibiting staff from engaging in any transaction in which they have a material interest that gives rise to a conflict of interest, unless such conflict of interest has been properly addressed. Additionally, we have adopted measures and methods to manage conflicts of interest based on the principles of prudent management, prioritising client interests over those of our employees or our employee’s minors, and treating clients fairly. We have established the Chinese wall policy to avoid conflicts of interest. Conflicts of interest must be disclosed to clients before proceeding with the transaction. If such conflicts of interest cannot be managed effectively through disclosure, we may adopt measures such as imposing restrictions on business activities.

Compliance with FATCA

Given that Victory Securities (HK) holds assets on behalf of clients in the provision of securities broking services and asset management services, it falls within the definition of FFI under FATCA.

To ensure that Victory Securities (HK) complies with FATCA requirements, we have adopted the following measures:

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

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We registered with the U.S. Internal Revenue Services as a participating foreign financial institution (PFFI) for FATCA purposes in July 2014. Given that (i) Victory Securities (HK) has registered with the IRS; (ii) we have implemented enhanced account opening procedures to identify U.S. accounts and clients in compliance with FATCA; and (iii) none of our existing securities trading accounts are 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 our existing clients.

Our responsible officer for FATCA compliance program and certifying on FATCA compliance to the IRS is Mr. Chiu. Our Directors believe that Mr. Chiu has sufficient authority to fulfil the duties of the responsible officer for FATCA compliance.

Staff dealing rules

Our employees must be aware of and comply with the relevant staff dealing provisions in our operations manual and applicable laws and regulations, and if they engage in the securities trading of their own, their minors or for an entity in which the employee is beneficially interested (collectively the “**Employee’s Connected Parties**”), the employee and/or the Employee’s Connected Parties are generally required to open a securities account with us. The account number of such accounts will begin with the alphabet “S” for easy identification and centralised management. The initial trading limit is set of nil and the trading instructions must be approved by the director of operations department (front office).

We prohibit our employees from conducting any trading of securities (including shares, futures and options) that we have offered through accounts maintained with other securities companies and/or registered financial institutions. In case of securities (including Shares, futures and options) that we do not offer, the employee must report to the management of the Company and obtain its approval. Upon our request, the employee should submit a copy of the monthly statement of such account for review of our management.

The trading order of our licensed employee and self-employed account executives in respect of his own account shall be carried out subject to the prior approval should be obtained from the director of operations department (front office). The trading order of the director of operations department (front office) in respect of his or her own account shall be approved in advance by our staff of the grade of chief operating officer or above.

Our employees are subject to the similar set of policies and rules in respect of our securities services as our other clients. Transactions under cash and margin account shall be approved by our director of operations department (front office). Our chief operating officer has the authority to refuse the application of an employee account or terminate an employee account under poor operation condition.

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Chinese wall and segregation of duties

To avoid any obvious and potential conflict of interest, we assign duties and functions to different department and maintain Chinese walls among them. Under our policy, the works performed by our operations department (front office) and finance department are completely separated. The director of operations department (front office) and our dealing room are also separated from our other departments and no access is allowed unless specifically authorised. The information obtained by the staff of our asset management department and finance department that may tend to cause fluctuation to the market price (e.g. information as to merger and acquisition activities) cannot be disclosed to any other staff without the approval from our management on a need-to-know basis.

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, we fall 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, we have established policies and procedures to ensure our compliance with the PDPO.

Anti-money laundering

To mitigate our money laundering risk, 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. Based on these materials we establish, review and adopt policies and provide education and training to our staff on anti-money laundering from time to time. Our guidelines on anti-money laundering are set out in our operation manual. We provide operational manuals to our staff to ensure that they are aware of the possibility of money laundering and their own personal legal obligations in relation thereto.

We have adopted policies and procedures in its operations and procedures manual to identify and detect money laundering activities, which include the following:

- (i) Client due diligence — our Licensed Representative is required to conduct initial actions to:
 - (a) identify the client, i.e. know who the individual or legal entity is;
 - (b) verify the client ’s identity using reliable source documents, data or information;

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- (c) identify and verify beneficial ownership and control of the client 's account and/or the person on whose behalf a transaction is being conducted; and
 - (d) conduct ongoing due diligence and scrutiny, i.e. perform ongoing scrutiny of the transactions and account throughout the course of the business relationship to ensure that the transactions being conducted are consistent with their knowledge of the client, its business and risk profile, taking into account, where necessary, the client 's source of funds.
- (ii) Retention of Records — our settlement staff are required to:
- (a) maintain the necessary records on transactions for six years from the completion of the transaction;
 - (b) keep records on client due diligence and account files for at least six years from the termination of the account; and
 - (c) our training record on anti-money laundering for three years; and
- (iii) all of our staff is required to report any suspicious transactions directly to our senior management for further action.

If there exist reasonable grounds to justify that the clients or activity are indeed suspicious, our money laundering reporting officer who is also our compliance officer shall file a suspicious activity report ("SAR") to the Joint Financial Intelligence Unit.

In this respect, the responsibilities of our money laundering reporting officer include:

- reviewing the internal suspicious activity reports submitted by our employees and determining whether to file an SAR to the Joint Financial Intelligence Unit; and
- maintaining a record of the internal suspicious activity reports received and SARs filed (if any).

We have not engaged in or knowingly assisted with any money laundering activities. During the Track Record Period and up to the Latest Practicable Date, we had not received any administrative penalties from regulatory authorities for violations of laws and regulations related to anti-money laundering.

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Information technology risk management

We have in place information security policy and rules which control over our information technology infrastructure. Access controls are in place. Authorisations are provided in accordance with the functions of the staff in his or her position. Password policies and standards are formalised to facilitate user authentication and access control. We require our staff to keep his or her password confidential and such password has to be changed periodically. We also require our staff to log out our system and put our workstation in a lock-up mode whenever he or she finishes the relevant tasks. Users of CCASS terminals are also required to remove his or her smart card after his or her session to avoid unauthorised access or alteration of our trading data.

Our computer system is protected by anti-virus software to prevent and detect any potential threat by computer viruses and other malicious software. To ensure the safety and stability of our computer system and prevent system breakdown, we have implemented the following measures. Firstly, for hardware components of our computer system, we conduct periodic checks, maintenance and upgrades of our server and network systems to maintain the system efficiency and data security. Secondly, we maintain a hardware maintenance and procurement policy whereby backup components are kept in-house to ensure any hardware failure can be recovered shortly and obsolete hardware are timely replaced. Thirdly, we have business contingency plans in place to deal with system breakdown. To protect our important data files and ensure swift recovery during data disruption or data loss, we conduct periodic backups of our system with our local backup server and remote backup server which syncs automatically with our local backup server. The remote backup server serves as our disaster recovery site during emergency incidents such as BSS system breakdown, network service breakdown, electricity breakdown and fire accidents. It allows our securities trading services be continued until the close of trading day. All the above measures are in place to ensure continuity of our operation.

In terms of our information technology infrastructure, we use WatchGuard to provide comprehensive security for our information technology system by providing timely system upgrade services, multi-layer network architecture, web application firewall, digital security authentication, intrusion prevention systems, etc. For the years ended 31 December 2016 and 2017, our expenses incurred on our information technology system and its maintenance amounted HK\$1.7 million and HK\$2.1 million, respectively.

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

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Internal control weakness identified by the internal control adviser and subsequent rectification measures

Our internal control advisor, which is affiliated with one of the “Big Four” accounting firms, during its internal control review performed in May 2016, August 2017 and February 2018 identified certain findings in our internal control policies and procedures. The following set out major findings and recommendation of our internal control advisor and remedial measures taken by Victory Securities (HK):

1. *Compliance with SFC requirements over Financial Resources Rules (“FRR”) and Financial Return*

Major findings	Recommendations	Remedial measures taken
1.1 The FRR is subject to review by our chief executive officer and chief operating officer before it is submitted to the SFC via e-portal. However, only high level reviews by assessing the reasonableness of key financial figures on the FRR were performed. Review evidences were not retained.	Strengthen the review process to ensure the accuracy of the FRR submitted to SFC. Detailed checking over data of FRR by our top management is compulsory and approval evidences must be retained.	Effective from September 2017, our financial controller will perform detailed reviews over the FRR prepared by our head of the accounting department or senior accountant by checking against the supporting calculation to ensure the FRR are correctly calculated. Prior to submitting the FRR, our chief executive officer and chief operating officer will also check the accuracy of the figures and approve the FRR. All evidences of review and approval have been documented.
1.2 Victory Securities (HK) have yet to establish formalised policy and procedures to address the following: <ul style="list-style-type: none">• Roles and responsibilities of our employees in terms of monitoring over financial resources requirements;• Follow up actions on non-compliance;• Reporting mechanism to the SFC.	Victory Securities (HK) should establish a formal policy to define <ul style="list-style-type: none">• The roles and responsibilities of Victory Securities (HK)’s employees in terms of monitoring financial resources requirements in routine operations;• Procedures to follow up with non-compliance incidents and communication channels with SFC.	Effective from September 2017, our chief operating officer has been formally designated as the main responsible person for monitoring over financial resources requirements. Details of financial resources requirements have been incorporated in our operation manual. Our chief operating officer is required to report non-compliance to the SFC within one business day.

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2. *Asset Management*

Major findings

2.1 There is no formal mechanism to assist new clients in understanding their risk exposures before they declare their risk tolerance levels. Instead, declarations are mainly made based on their preferences and perceptions of the stock markets.

Recommendations

A comprehensive risk assessment mechanism on new client should be established. Prior to engaging new clients for asset management services, Victory Securities (HK) should assist all potential clients to understand their risk tolerance levels.

Remedial measures taken

Effective from October 2017, it is compulsory for all new asset management clients to fill in a new Risk Profile Questionnaire as part of the know your client process, with questions about the investment history, age, occupation, salary of the clients. Each response comes with a score. The level of risk that can be tolerated by a client is then calculated based on the total score of the questionnaire, which will assist clients to understand their risk exposure and maximum risk tolerance level.

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Major findings	Recommendations	Remedial measures taken
<p>2.2 Our review requirements of investment strategy, performances of clients’ portfolios, fund managers; transaction and liquidity risks have not been formalised in any policies or procedures.</p> <p>The meeting minutes did not indicate the review over clients’ portfolios had been performed by our management during the weekly review meetings.</p>	<p>Victory Securities (HK) should set out detailed review requirements over clients’ portfolios and fund managers’ transactions in our asset management manual. If abnormality or non-compliances instances are noted, our management should take all necessary follow up actions. All follow up actions and review evidences should also be documented.</p>	<p>The requirements over reviews of clients’ portfolio at weekly meetings have been updated to our asset management manual.</p> <p>Meeting minutes will be taken to document results of such reviews.</p>
<p>2.3 For investment restriction in bonds and debts instruments on behalf of the clients, fund managers should only invest in bonds or debt instruments with high liquidity and stable prospect. Such investment guideline and the debt instruments selection criteria have not been formalised in our policies.</p>	<p>Victory Securities (HK) should formally establish the guideline on investment of bonds and debt instruments to ensure investment strategies adopted by fund managers are always aligned with the clients’ expectations and risk tolerance levels.</p>	<p>Effective from October 2017, all fund managers can only select the bonds with high liquidity and stable prospect for their clients. The asset management manual has defined the debt instruments selection criteria including debt ratio, term of maturity and interest rate. Only debt instruments that can meet the criteria can be chosen by the fund managers.</p>
<p>2.4 There were no guidelines in the allocation to clients over the same stocks and bonds purchased at different prices on the same day. Clients may not get a fair allocation of stocks and bonds purchased at the more favourable prices.</p>	<p>Victory Securities (HK) should formally establish the guideline to govern order allocations for fund managers managing multiple funds and discretionary accounts to ensure that all orders are fairly allocated.</p>	<p>The allocation basis has been incorporated in the asset management manual in October 2017.</p> <p>Effective from October 2017, the shares are the distributed based on the ratio of the quantity ordered. The details including the trading prices, the number of shares allocated to each client are documented on the order allocation form, which will be sent to the chief operating officer for review.</p>

3. *Investment in shares*

Major findings	Recommendations	Remedial measures taken
<p>3.1 Victory Securities (HK) invested in shares in March 2017. However, the evidences of the investment decision or approvals from the Investment Committee were not retained. According to the configuration of the existing trading system, the trading order is immediately in effect after the head of operations (front office) places the trading order.</p>	<p>Victory Securities (HK) should</p> <ul style="list-style-type: none"> • Retain all the approval evidences from the Investment Committee on decisions to our own investment; • Independently approve all such trading orders in the trading system before execution. 	<p>All the members of the Investment Committee have been reminded to retain all approval evidences with respect to decisions on our own investment in shares.</p> <p>The configuration of the trading system has been modified. All trading orders for own investment will be subject to approval before they are in effect.</p>

Having considered the findings of the internal control advisor, our Directors consider that the findings did not have a material impact on our financial position and operational performance; the measures implemented were adequate to address the financial risks and operational risks we faced; and our internal control measures were properly designed and effectively implemented. In the reviews conducted by the internal control advisor in May 2016 and August 2017, we had considered all the internal control advisor’s recommendations and also taken the necessary remedial measures to address our internal control deficiencies and weaknesses.

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NON-COMPLIANCE, DISCIPLINARY AND INSPECTION ACTIONS

Our Directors confirm that save as disclosed below, we have complied with all applicable laws and regulations in Hong Kong (being the principal jurisdiction in which we operate) in all material respects and no disciplinary action was taken against us and/or our licensed employees during the Track Record Period and up to the Latest Practicable Date.

Set out below are details of our past non-compliance incidents:

Breach of Securities and Futures (Client Securities) Rules

An SFC investigation revealed that Victory Securities (HK) had on two occasions in August 2003 pledged securities belonging to its cash clients to its banks recklessly, involving shares worth HK\$77,255 and HK\$56,609, respectively. Victory Securities (HK) did so without the clients' knowledge and without obtaining their prior approval. The SFC found that Victory Securities (HK) had failed to implement an effective internal control system to ensure that client securities were properly allocated to the correct designated CCASS sub-accounts.

Ms. Kou was at all material time the responsible officer of Victory Securities (HK) in charge of the overall administration and operation of the company. The breaches by Victory Securities (HK) were attributable to Ms. Kou.

Victory Securities (HK) and Ms. Kou each pleaded guilty to two summonses on 31 March 2005 at Eastern Magistracy. They were fined a total of HK\$10,000 and ordered to pay investigation costs of HK\$11,093 to the SFC.

On 28 March 2006 the SFC suspended Ms. Kou, for one month from 28 March 2006 to 27 April 2006 and reprimanded Victory Securities (HK) and fined it HK\$50,000 for breaching the Code of Conduct for Persons Licensed by or Registered with the SFC.

The SFC concluded that Victory Securities (HK)'s and Ms. Kou's fitness and properness had been called into question. In deciding their penalty, the SFC considered the Disciplinary Fining Guidelines and all the circumstances of the case including (i) the guilty plea to the breach of the Securities and Futures (Client Securities) Rules which resulted in the convictions; (ii) no loss to Victory Securities (HK)'s clients in the incidents; (iii) Victory Securities (HK) co-operated with the SFC's investigation; (iv) the remedial action taken by Victory Securities (HK) to strengthen its internal controls; and (v) Victory Securities (HK)'s clean disciplinary record.

Victory Securities (HK) had implemented the following strengthened internal control measures to prevent a reoccurrence of the breach: (i) it implemented a new back-office system to tackle the problem of misappropriation of client securities among depots and banks (for repledged securities), by means of a newly instituted mismatch report generated on daily basis, which reconciles the comprehensive back-office system record against the record from CCASS; and (ii) it employed a compliance officer to investigate the reason for any discrepancy in mismatch report on a daily basis and take corresponding follow-up actions whenever necessary in better compliance with relevant laws and regulations, and from then on a high degree of segregation of duties could be enforced because of one more person being responsible and accountable for the compliance work and issues.

BUSINESS

Limited reviews by the SFC

Victory Securities (HK) has been subject to a number of limited reviews by the SFC. Please see below for the details in relation to the SFC's findings and our remedial measures adopted to address the issues raised by the SFC. As these reviews are limited in scope, they may not identify all breaches, deficiencies and irregularities that may have existed at the relevant time when such reviews are conducted.

September 2005

The following highlights the findings of the SFC stated in a letter to Victory Securities (HK) dated 21 September 2005 after a limited scope review of the business activities of Victory Securities (HK) by the SFC in mid June 2005. We received a letter dated 7 November 2005 from the SFC confirming no further comments on our response.

Comments from the SFC

Our rectification actions

(1) Imprudent credit policy

SFC noted we granted and extended trading limit in derivative warrants which failed to take into account the financial status and was not commensurate with the financial capability of the client.

We implemented credit policy procedures which takes clients' financial background, previous trading experience in securities and perception of risk into account when granting or extending their trading limits in derivative warrants. Enhanced documentation and record keeping has also been in place since then.

SFC also noted that there was no documentation of the management rationale/justification to support the grant and extension of trading limit

(2) Ineffective risk management

SFC required us to strengthen our due diligence review during account opening process to substantiate client's financial background and trading limit in derivative warrants granted, client's financial background should commensurate with client's financial position and risk appetite.

Client's financial background, previous trading experience in derivatives and risk appetite has been taken into account during the account opening process. We also implemented real-time risk management procedures such as trading limit settings and monitoring by software-based & hardware-based controls to ensure the intraday position being in line with the financial means of clients as well as Victory Securities (HK).

SFC also required us to implement real-time risk management procedures to ensure the intraday position being in line with the financial means of clients as well as Victory Securities (HK).

BUSINESS

February 2007

The following highlights the findings of the SFC stated in a letter to Victory Securities (HK) dated 16 February 2007 and 18 July 2007 after a limited scope review of the business activities of Victory Securities (HK) by the SFC in late 2006. We received a letter dated 15 January 2008 from the SFC confirming no further comments on our response.

Comments from the SFC

Our rectification actions

(1) Segregation of client monies

SFC noted several instances of under-/over-segregation of client money which were in contravention of sections 4(4) and/or 5(1) of the Securities and Futures (Client Money) Rules ("CMR")

We instituted dual checking on a daily basis to ensure the accuracy of the segregation reconciliations and audit trail is kept for the segregation reconciliation. Our compliance officer performed double check at least twice a week.

(2) Disposition of client securities

SFC noted a problem with our back office system which might lead to commingling of cash client securities with margin client securities in contravention of section 5 of the Securities and Futures (Client Securities) Rules ("CSR").

We instructed the back office system vendor to make software enhancements to rectify the problem. We implemented client securities reconciliation on a daily basis, and our compliance officer implemented sample checking on a weekly basis, followed by detailed checking on a monthly basis.

SFC also noted some overseas securities belonging to cash clients were deposited with a margin account maintained with another broker, and this was in breach of paragraph 11.1 of the Code of Conduct.

We subsequently rectified this issue.

(3) Statements of account

SFC noted that the actual date of physical scrip withdrawal and nature of the transaction were not accurately reflected in statements of account. SFC required us to take immediate remedial action to ensure all information provided to clients were accurate and not misleading so as to comply with section 11(3)(e) of the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules ("CNR")

We instituted remedial procedures in relation to stock withdrawal instructions, and attach detailed error report to the statement of account upon client request.

BUSINESS

Comments from the SFC

Our rectification actions

(4) Financial Returns

SFC noted errors in our financial returns as at 30 September 2006. Major errors include: (i) incorrect calculation and classification of house subscription of securities; (ii) incorrect inclusion of certain receivables from cash clients as liquid assets; and (iii) application of wrong haircut ratios for calculation of the liquid asset value of client receivables.

We implemented remedial steps to increase accuracy of the financial returns by having our accountant generate the return with supporting documents. Our compliance officer would then conduct a detailed check and finalise the return. The return will receive final checking and sign off by our management.

(5) Delivery of daily statement of account

SFC noted that daily statements of account were not mailed out within two business days after entering into certain buy contracts in breach of section 5(1)(b) of CNR, which requires intermediaries to provide contract note to client no later than the end of the second business day after entering into the relevant contact.

We implemented remedial steps to have the daily statements sent to client by mail if the client did not physically collect the same before the end of the second business day.

SFC also noted that no written instructions or acknowledgment of receipt were signed by clients who physically collected their daily statements of account from our offices, and the corrective action previously proposed to the SFC was not implemented

We implemented remedial steps to require clients who physically collected their daily statements to sign an acknowledgement form.

(6) Order recording

SFC noted that we did not keep clients' instructions for IPO subscriptions placed through our website. SFC reminded us to keep all IPO subscription orders received through internet was properly kept in accordance with section 1(d) of schedule to the Securities and Futures (Keeping of Records) Rules ("**KRR**")

We rectified issue by keeping soft and hard copies of all IPO subscriptions.

BUSINESS

Comments from the SFC

Our rectification actions

(7) Hold-mail arrangement

SFC noted that we did not perform independent verification with clients on the hold-mail arrangements and no control procedure was in place to follow up uncollected mail, nor was the hold-mail arrangement renewed on an annual basis in accordance with schedule 1 of the Code of Conduct.

We discouraged hold-mail arrangement and only allowed it in exceptional circumstances. The authenticity of the hold mail request will be confirmed with the client by independent staff subject to annual renewal. Our compliance officer confirmed with the client that the client acknowledged and was aware of the risk involved for hold-mail arrangement.

(8) Discretionary accounts

SFC noted one instance where trading on discretionary account differed from the investment objective and risk profile stated on account opening form. In addition, SFC noted that we only performed review of the transactions in some of the discretionary accounts once in 2006 whereas our procedure manual stated that a monthly review should be performed for all discretionary accounts.

We had imposed a minute limit and no carry-overnight rule to confine risk exposure. We discussed with clients to see if adjustment to investment objective was needed when we discover contradiction between trading on discretionary account and investment objective.

We implemented monthly reviews of our discretionary accounts to be conducted by our compliance officer. Our management also checked on the daily statements including discretionary accounts at least once a week.

(9) Segregation of duties

SFC noted that our branch office in the past had no settlement staff and most of the settlement functions were performed by licensed persons who handled client orders.

We rectified the issue by transferring the settlement functions to unlicensed persons in our head office.

(10) Amendment of client address

SFC noted that we did not have dual control over amendment of client address to the client information database and no system log was available to keep track of all changes made to the client information database.

We implemented new control measures in relation to address change instructions to rectify the situation. Letters of confirmation were sent to the new addresses of clients. Our compliance officer also verified signatures and the amendment log will be checked by our management. Staff who had no contact or dealings with clients was assigned to replace the registered person originally responsible for inputting the amendment to our system.

SFC further noted that no independent confirmation was obtained from client for verifying the authenticity of address change instructions.

BUSINESS

Comments from the SFC

Our rectification actions

(11) Bank reconciliations

SFC noted we did not perform bank reconciliations for the two trust bank accounts which led to discrepancies identified between the accounting ledgers and bank balances in late September and early October 2006.

We subsequently performed bank reconciliations for the two trust bank accounts and implemented procedures and review mechanism so that any errors and/or omissions are promptly detected and acted upon.

(12) Maintenance of client database

SFC noted errors in our client database. Errors include: (i) accounts that were not client accounts; (ii) dormant accounts or those no longer in use were not suspended or closed; and (iii) some accounts were not clearly classified with clear narrative.

We performed full scrutinisation of the accounts in the client database and reviewed client particulars against account opening documentation.

(13) Circularisation of client accounts

SFC noted follow-up work in relation to circularisation of account balances and stock holdings of our clients was required, including:

We suspended such accounts with non-replies or wrong signatures until formalities completed or complied with. We updated our client information where such information was missing or outdated.

- a) non-replies to confirmations or returned post;
- b) wrong signatures on confirmations compared to internal records;
- c) outdated or inconsistent client information in relation to addresses, telephone numbers; and
- d) missing account opening documentation in breach of section 3(1) KRR and paragraphs 5.1 and 6.1 of the Code of Conduct

BUSINESS

December 2012

During the inspection visits by the SFC in late 2012, the SFC had some comments on our internal control procedures. We were required to take rectifying measures on the deficiencies as detailed below. In February 2014, we received a letter from the SFC confirming no further comments on our responses. Set out below is the summary of the comments from the SFC and our rectification actions taken in respect of their comments:

Comments from the SFC

Our rectification actions

(1) Commingling of securities

SFC noted that we had commingled cash clients and margin clients' securities in external brokers' securities account held in Victory Securities (HK)'s own name. The SFC found that this exposed client assets to undue risk and breached the client asset protection requirements under the Code of Conduct.

Victory Securities (HK) changed the account name from Victory Securities Co Ltd. to Victory Securities — Clients Account for external brokers, to ensure the proper stock segregation for both cash and margin clients.

Victory Securities (HK) should immediately take steps to address concern and ensure compliance with the Code of Conduct.

(2) Allowing clients to directly trade through individual sub-accounts under Victory Securities (HK)'s master account with an external broker

SFC noted that in enabling clients to trade through the individual sub-accounts without going through Victory Securities (HK)

- (a) Victory Securities (HK) had passed to the sub-account clients respective passwords for operating the sub-accounts which Victory Securities (HK) created through the master account with the external broker. The client agreement was between the external broker and Victory Securities (HK).

All client trading in global stocks executed via Ayers Trading System connected to external brokers. No trades had been done via sub-accounts. Victory Securities (HK) closed its master and sub-accounts with the external broker in November 2013.

SFC was concerned that such acts constituted unauthorised creation and use of passwords to directly access Victory Securities (HK)'s accounts by its sub-account clients. SFC was not provided with any information on controls which guards against unauthorised use of passwords by persons other than sub-account clients.

BUSINESS

Comments from the SFC

Our rectification actions

- (b) SFC noted that neither the external broker nor Victory Securities (HK) in conjunction with the external broker, set any trading limits on the sub-accounts. Instead the external broker restricted the extent of the trading on the sub-accounts by reference to the cash amounts that were maintained on the respective sub-accounts.

We rectified the problem by setting trading limits via our trading system which connected both the external brokers and our clients.

SFC was concerned that there were no controls to limit the extent of trading based on the client's overall financial situation, particularly when such sub-account clients were also margin clients.

- (c) SFC noted that in case of futures trading, where the cash balance maintained by the clients fell below the maintenance margin requirements, the external broker issued margin calls on the master account and Victory Securities (HK) issued emails to clients and where necessary, the external broker liquidated positions to contain losses.

Victory Securities (HK) concluded that the risk was controllable having assessed the following:

It was noted that Victory Securities (HK) was legally liable for remaining losses on the sub-accounts.

- The futures trading accounts have a total value of HK\$200,000, which it viewed as acceptable risk;
- Real-time monitoring by dealing supervisor;
- Trading system liquidates positions as necessary to ensure the account is within margin limits;
- The futures accounts trade only Hang Seng Index Futures;
- The accountability and reliability of the external broker's trading system is high;
- When trading volume exceeds a certain level, Victory Securities (HK) employed "Sharp Point" trading system to manage risk.
- Victory Securities (HK) closed its master and sub-accounts with the external broker in November 2013.

SFC was concerned that Victory Securities (HK) exposed itself to financial risk by allowing clients to trade through sub-accounts on a free hand basis.

Victory Securities (HK) was required to take all necessary measures and controls to mitigate the risks and address SFC concerns.

BUSINESS

Comments from the SFC

Our rectification actions

(3) Paying client monies and securities to the external broker sub-accounts through the master account with external broker in-transit

SFC noted there were times in which the sub-account clients' monies and securities were deposited into a master general account that was not reserved for holding the subject client assets.

Victory Securities (HK) was required to critically review the external broker master and sub-account arrangement and ensure that client assets are properly accounted for and safeguarded from front to end.

Our house account with external broker was for the purpose of trade and settlement for transactions made in other markets, while clients who made the trades will settle in Hong Kong with Victory Securities (HK). As the arrangement couldn't meet the compliance requirement, we finally closed the account with the said external broker in November 2013 after we transferred all the securities to another external broker.

(4) Omission of information from statements of account issued to clients

SFC noted with serious concerns that Victory Securities (HK) omitted all sub-account clients' cash balances and one major sub-account client's stock balance from the statements of account issued to the clients. Such sub-accounts were maintained with an external broker of Victory Securities (HK)

All ledger balances, number of stocks and future positions will be included in statements of account issued to clients. Victory Securities (HK) closed its master and sub-accounts with the external broker in November 2013.

Victory Securities (HK) was required to immediately ensure that all statements of account issued to clients are complete and accurate, in accordance with the Securities and Futures (Contract Notes, Statement of Account and Receipt) Rules.

(5) Omission of clients' physical scrip from statements of account issued to clients

SFC noted with concerns that clients had deposited with Victory Securities (HK) physical scrip and signed transfer documents. However, Victory Securities (HK) omitted to include such physical scrip in the statements of account issued to the clients.

Details of physical scrip received by Victory Securities (HK) would be included in statements of account issued to clients.

SFC reiterated that Victory Securities (HK) was required to take remedial action immediately to ensure that all statements of account issued to clients are complete and accurate, in accordance with the Securities and Futures (Contract Notes, Statement of Account and Receipt) Rules.

BUSINESS

Comments from the SFC

Our rectification actions

(6) Omission of client securities from stock ledgers

SFC noted that Victory Securities (HK) stock ledgers understated the amount of client securities kept by it.

The stock ledgers form the basis upon which Victory Securities (HK) reported its holding of client securities in the financial resources return.

Victory Securities (HK) should ensure that the stock ledgers capture all client securities held by it, as required under the Securities and Futures (Keeping of Records) Rules. Victory Securities (HK) should also ensure accurate reporting of figures in the financial resources return submitted to the SFC.

Stock ledgers would record all client securities including foreign securities held. Victory Securities (HK) would check the accuracy of figures reported in the financial resources return submitted to the SFC.

(7) Cross trade in a U.S.-listed Chinese stock

SFC noted that two clients of Victory Securities (HK) entered into a cross trade in a U.S.-listed Chinese stock in Hong Kong.

SFC was concerned that Victory Securities (HK) relied on external broker's customer service staff advice without taking due diligence steps to ensure that its handling of client cross trade transactions comply with all applicable rules and regulations.

SFC was also concerned on the apparent lack of clear audit trail on the terms of the cross trade and the inconsistent date of conclusion of the cross trade between that shown on the bought and sold note and the daily statement of account issued to the clients.

The statements of account issued to the clients should reflect correct information of trade transactions, as required by the Securities and Futures (Contract Notes, Statement of Account and Receipt) Rules.

Victory Securities (HK) would obtain legal opinion and conduct due diligence in similar transactions in future to comply with all applicable rules and regulations. Victory Securities (HK) would record in detail the handling process.

BUSINESS

Comments from the SFC

Our rectification actions

(8) Omitting to include risk disclosure statement in renewal of standing authority to use client securities collateral

SFC noted that Victory Securities (HK) did not include the risk disclosure statement specified under Schedule 1 of the Code of Conduct in the written notice given to clients to renew the standing authority in which clients authorise Victory Securities (HK) to deposit their securities collateral for financial accommodation.

Risk disclosure statement would be attached to renewal of standing authority to use client securities collateral.

Victory Securities (HK) should immediately comply with this requirement.

December 2017

Following an inspection visit by the SFC in December 2017, we received a letter dated 6 April 2018 from the SFC setting out their comments on our internal control procedures. We were required to take rectifying measures on the deficiencies below. On 30 April 2018, we received a letter from the SFC confirming no further comments on our responses. Set out below is the summary of the comments from the SFC and our rectification actions taken in respect of their comments:

Comments from the SFC	Recommendations from the SFC	Our rectification actions
(1) Safeguard of client assets		
<p>(a) Lack of stock reconciliation performed at sub-account level</p> <p>SFC noted that Victory Securities (HK) performed only reconciliation on the stock holdings at sub-account level fortnightly for Hong Kong listed securities and monthly for China Connect Securities, rather than on a daily basis.</p>	<p>SFC suggested that Victory Securities (HK) should perform stock reconciliation at the CCASS sub-account level as soon as reasonably practicable to ensure that client securities and securities collateral are properly segregated into the respective designated accounts.</p>	<p>Victory Securities (HK) subsequently adjusted its back office system to generate a daily stock reconciliation report to perform stock reconciliation at the CCASS sub-account level and revised its policy. Once a discrepancy exists, an ATI is generated on the next business day and executed to ensure the client holdings in the Company are matched with those in CCASS on sub-account level to ensure that client securities and securities collateral are properly segregated on a daily basis.</p>
<p>(b) Controls over CCASS functions</p> <p>SFC noted the chief operating officer was granted the rights to both input and authorise SI, ISI and physical scrip withdrawal transactions with no transaction limit.</p> <p>Also, a settlement manager and a settlement officer, could effect SI transactions singly for transactions that were below \$500,000. They were also granted the rights to both input and authorize ISI transactions.</p>	<p>SFC required Victory Securities (HK) to review its CCASS user profiles and ensure that the access controls and limits for input or authorisation functions granted to each authorised user are given on a needed basis and are set in such a way as to ensure proper checks and balances are present.</p>	<p>Victory Securities (HK) subsequently rectified the issue by revising chief operating officer's right to a lower transactional value with the same scope of authority. In the revised CCASS User Profile Listing, deputy director of operation is now designated as the checker while settlement officers as makers of their own prescribed scope. Each of them has a revised limit and is authorized for executing the duties on ATIs.</p>
<p>(c) Trust account reconciliation</p> <p>SFC noted that Victory Securities (HK) had over-segregated client monies in the segregated client trust accounts with the client money received and held outside Hong Kong. This was not in compliance with section 10 of the CMR.</p>	<p>Notwithstanding Victory Securities (HK) had subsequently properly segregated the client money in segregated trust accounts, SFC suggested that Victory Securities (HK) should ensure proper segregation of client monies and compliance with the CMR. Further, it should ensure that client positions or assets, including those kept with external brokers are adequately safeguarded and properly and promptly accounted for.</p>	<p>This issue had been reported in the annual compliance report filed with SFC on 30 April 2018.</p> <p>Further, Victory Securities (HK) now downloads full reports from its external brokers on a daily basis to ensure that client positions or assets kept with external brokers are adequately safeguarded and accounted for property and promptly and has revised its policy.</p>

BUSINESS

Comments from the SFC	Recommendations from the SFC	Our rectification actions
<p>(2) Segregation of duties</p> <p>SFC noted that account executives and dealing staff of Victory Securities (HK) who handled client orders, might also handle clients' fund deposits by receiving the deposit slips from clients and relaying them to the settlement department.</p>	<p>SFC noted that Victory Securities (HK) had enhanced its control by requiring clients to sign on the deposit slip, but suggested that it should promptly advise the back office staff directly instead of the front office staff handling deposits into its designated bank accounts.</p>	<p>Victory Securities (HK) subsequently revised its policy and procedures for client fund deposits to ensure that the fund is credited to the right client account. Both maker and checker are back-office officers and only they have the access rights to our back-office system. Another measure was established to ensure the accuracy of information, all client deposits are now checked against bank records before day-end in order to be reflected in client statements as of that date by account's department.</p>
<p>(3) Information on Statements of Account</p> <p>SFC noted that the statement of accounts (i) did not accurately reflect the actual dates of fund deposits made by the client; and (ii) showed the date Victory Securities (HK) delivered the stock scrip to HKSCC rather than the date it received the stock scrip from the client.</p>	<p>SFC suggested that Victory Securities (HK) should ensure that all information provided to clients should be accurate, complete and not misleading.</p>	<p>Victory Securities (HK) subsequently revised its policy and procedure by enhancing its checking of notification of deposit against its bank records to ensure that deposits are identified, inputted, verified and correctly dated. It also enhanced its procedures on handling stock scrips so that its back-office system now dates the actual date of receipt or withdrawal of stock scrip from or to clients respectively.</p>
<p>(4) Third party operated accounts</p> <p>SFC noted that Victory Securities (HK) allowed its clients to grant authority to third parties to operate their accounts by signing a standard form of authorisation:</p> <p>(i) In its sample review, Victory Securities (HK) had not enquired and retained documentation on the reasons for granting such authority.</p> <p>(ii) Under the standard form of authorisation, the authorised third party was allowed to receive statement of accounts and notices issued by Victory Securities (HK).</p> <p>(iii) Victory Securities (HK) did not have written policies and procedures for monitoring the trading activities of US listed securities including detection of any potential market misconducts.</p>	<p>SFC suggested that Victory Securities (HK) should put in place appropriate internal controls to protect its operations and clients from financial losses arising from theft, fraud and other dishonest acts. It should enquire and critically evaluate the reasons and needs for granting authority, and keep proper documentation. It should also critically review and revise the standard form of authorisation to ensure that the authority granted to the third party is consistent with the needs of and the parameters given by the client.</p> <p>Victory Securities (HK) should, specifically in relation to accounts that actively trade in US listed securities, establish policies, risk mitigation measures and on-going monitoring procedures to prevent and detect any potential fraud and improper activities and ensure compliance with all relevant laws, rules and regulations.</p>	<p>Victory Securities (HK) enhanced its control:</p> <p>(i) to require the client to specify in the standard form of authorisation the reason for granting the authority to the third party and to provide further documentary support where appropriate;</p> <p>(ii) to remove the right of third party to receive statement of accounts and notices issued by Victory Securities (HK) from the standard form of authorisation;</p> <p>(iii) for accounts that trade actively in US listed securities, to prevent and detect potential fraud and improper activities, and to ensure compliance with all relevant laws, rules and regulations by: (a) performing quarterly Internet search of writ, litigations and disciplinary actions conducted against external brokers; (b) limiting idle client monies held with each external broker to US\$10 million; (c) limiting client securities deposited with each external broker to US\$40 million; (d) reconciling client money and client securities held with external brokers on a daily basis; (e) reviewing monthly focus reports issued by local regulator of external brokers; (f) assigning staff to review trading activities of US listed securities; and (g) reviewing reports of trades conducted by high volume traders on a daily basis to detect abnormal trading.</p>

BUSINESS

Comments from the SFC	Recommendations from the SFC	Our rectification actions
<p>(5) Discretionary accounts arrangement</p> <p>Victory Securities (HK) allows its clients to grant authority to its staff to operate their client accounts by signing a standard form of authorisation as an ancillary part of its brokerage services. SFC noted that: (i) the investment objectives and strategies of the clients were not stated in the authorizations; and (ii) no record was maintained on the underlying rationale of the investment recommendations made to the clients.</p>	<p>SFC suggested Victory Securities (HK) should ensure that the discretionary account agreement sets out the investment objectives and strategies of the client and the terms and conditions the discretion will be exercised.</p>	<p>Victory Securities (HK) revised its policy and procedures that subsequently enhanced its control to ensure that clients who grant authority to its staff to operate client accounts complete and sign an addendum to the standard form of authorization. The addendum sets out the reasons for giving the authority, the investment objectives and risk appetite of the clients. Such addendum is annually renewed. For further protection of clients’ interests, telephone number of compliance department is given to clients via the addendum so they can always comment on the authorized staff during the course of authorization. Clients are entitled to the right of termination of authorization anytime they see fit.</p>
<p>(6) Asset management accounts</p> <p>Victory Securities (HK) allowed its clients to grant authority to it to operate their client accounts by signing an asset management agreement. SFC noted that:</p>		
<p>(i) Risk profile questionnaire (“RPQ”)</p> <p>Victory Securities (HK) has implemented a RPQ to assess a client’s risk profile. Based on the design of the RPQ, SFC noted that the RPQ is unable to fairly assess the risk profile of clients. Victory Securities (HK) had not taken into account client’s investment objective in its assessment, and the categorisation mainly relied on the risk appetite of a client.</p>	<p>SFC suggested that Victory Securities (HK) should review the design of the RPQ and scoring system to ensure the client’s risk profile is accurately established.</p>	<p>(i) Risk profile questionnaire</p> <p>Victory Securities (HK) revised its RPQ and scoring system to ensure the client’s risk profile is accurately established. Investment objective is also laid down in the RPQ. If the assessed risk tolerance level is not in line with the client’s investment objective, then the more conservative one would be taken.</p>
<p>(ii) Allocation of assets</p> <p>SFC noted inconsistency between a client’s actual asset allocation and the prescribed asset allocation in the asset management agreement entered between Victory Securities (HK) and the client. Whilst the target allocation was indicative only, SFC noted that Victory Securities (HK) had not put in place policies to document the reasons underlying the deviation or to keep track of the extent of the deviation and whether such deviation was suitable for and properly communicated with the client.</p>	<p>SFC further suggested Victory Securities (HK) should establish adequate system and controls to ensure only transactions consistent with the investment strategies and objectives of its clients are effected. Any deviation should be supported by sound justification and properly documented.</p>	<p>(ii) Allocation of assets</p> <p>Victory Securities (HK), already documented the reasons for deviation from the investment strategies and objectives in the minutes of weekly meetings of the investment committee. It had also informed its asset management clients of the portfolio position in its quarterly report to the asset management clients. Asset management department is now obliged to follow the subsequently revised policy assesses the client’s risk tolerance, the audit trail of which shall be the revised RPQ which stipulates the assessor’s signature if the tolerance matches with the client’s investment objective. Accordingly, a corresponding asset allocation is determined for the account.</p>
<p>(7) Credit controls</p> <p>SFC understood that different margin ratios were applied to different stock collateral but Victory Securities (HK) did not take into account the liquidity and volatility of underlying stocks and other relevant risk factors in making margin calls.</p> <p>SFC also noted that there were some rolling balance cash clients with debit balance exceeded HK\$300,000, being the maximum debit balance allowed under Victory Securities (HK)’s operation manual.</p>	<p>SFC suggested that Victory Securities (HK) should critically review its margin call policy and revise the triggering level for making margin calls after taking into account all relevant factors, including the quality, volatility and liquidity of the securities collateral provided by clients, prevailing market conditions and the clients’ credit worthiness. Victory Securities (HK) should also implement appropriate controls to ensure strict compliance with its internal policy.</p>	<p>Victory Securities (HK) reviewed its margin call policy and procedures and revised the triggering level for making margin calls after taking into account all relevant factors as suggested by SFC.</p> <p>It had also subsequently revised its policy and procedures that requires the chief operation officer and compliance officer to approve debit balance exceeding HK\$300,000.</p>

BUSINESS

Comments from the SFC	Recommendations from the SFC	Our rectification actions
<p>(8) Staff dealing</p> <p>According to Victory Securities (HK)'s operation manual, employees are not allowed to open personal trading accounts with other brokers and they must trade through Victory Securities (HK). However, account executives are not subject to such requirement.</p> <p>SFC noted that an employee of Victory Securities (HK) traded securities through his personal account maintained with an outside broker. This was not in compliance with Victory Securities (HK)'s operation manual.</p> <p>SFC understood that Victory Securities (HK) had issued warning to the employee and required him to dispose of all his stock holdings in his personal account maintained with the outside broker.</p> <p>SFC noted this employee was also the authorised person for operating more than 80 discretionary client accounts. There were instances that he, had traded in the same stock as the client did on the same day, both in his account maintained with Victory Securities (HK) and outside broker.</p> <p>SFC understood that the senior manager of compliance performed bi-monthly review on all staff's personal trading accounts. The chief operating officer would also conduct bi-monthly review to compare the staff dealing activities and the transactions in the discretionary accounts. SFC doubted whether such post trade reviews can effectively detect and prevent any trading malpractice on a timely manner. It would be difficult to observe the client priority issue for trades executed through staff accounts maintained with outside brokers. SFC also noted that deficiencies in the reviews such as misstatement by the senior manager and lack of audit trail to evidence that the chief operating officer had reviewed personal trading activities of the relevant employee at his account maintained with outside broker against those of the discretionary accounts.</p> <p>The above were not in compliance with paragraph 12.2(b) and 9.1 of the Code of Conduct.</p>	<p>SFC suggested that Victory Securities (HK) should enhance its operation manual and controls over staff dealing.</p> <p>Victory Securities (HK) should also implement effective policies and procedures on the operation of discretionary accounts to minimize the potential conflicts of interest between its employees/account executives and clients, and to ensure the priority of client orders.</p> <p>SFC reminded that transactions of employees' accounts and related accounts should be reported to and actively monitored by senior management or designated person to detect irregularities and ensure that client interest is not prejudiced.</p>	<p>Victory Securities (HK)'s employees and account executives had received and signed an internal circular to acknowledge that no outside broker account should be opened and maintained unless the person cannot trade such products via Victory Securities (HK). If both conditions are met, employees should close all outside broker accounts within one week after the probation period and the same rule also applies to account executives since April 2018.</p> <p>Victory Securities (HK) subsequently enhanced its policy to prohibit staff dealing and trading of discretionary accounts of the same stock on the same trading day.</p> <p>Following warnings from Victory Securities (HK), the relevant employee ceased trading in Hong Kong listed securities with outside brokers.</p> <p>Under the revised operation manual, employees and account executives are no longer allowed to maintain securities accounts with external brokers. This control measure should address the issue of potential conflict of interest with clients, and the priority of clients orders.</p> <p>For products that Victory Securities (HK) does not provide a trading platform, employees and account executives are allowed to maintain trading accounts with external brokers. Victory Securities (HK) will keep its existing control measures given that the potential conflict of interest had already been minimized and under control.</p>
<p>9) Anti-money laundering and counter-terrorist financing ("AML/CFT")</p> <p>(a) Customer due diligence</p>	<p>SFC suggested that Victory Securities (HK) should verify the corporate information by obtaining a company search report in accordance with the relevant AML/CFT regulatory requirements and Victory Securities (HK)'s internal policies.</p>	<p>(a) Customer due diligence</p> <p>Victory Securities (HK) subsequently revised its policy and procedures which required to verification of the corporate information by obtaining a company search report in accordance with the relevant AML/CFT regulatory requirements and the Company's internal policies.</p>

BUSINESS

Comments from the SFC	Recommendations from the SFC	Our rectification actions
<p>(b) Suspicious transaction reporting</p> <p>Suspicious transactions identified by Victory Securities (HK)'s staff and reported to the money laundering reporting officer were summarized in the report named “Red Flag Recognition Record”. SFC found that the report failed to record details such as the staff members who reported the suspicious transactions and subsequently handled the reported transactions.</p> <p>This was not in compliance with paragraphs 7.25 and 7.31 of the AML Guideline.</p>	<p>SFC suggested that Victory Securities (HK) should ensure that records and relevant documents in relation to all internal disclosures made to the money laundering reporting officer are properly established and maintained, including the required information and details.</p>	<p>(b) Suspicious transaction reporting</p> <p>Victory Securities (HK) subsequently revised its policy which required “Red Flag Recognition Record” to record the details of staff members who reported the suspicious transactions and handled the reported transactions.</p>

SFC investigation

Following SFC enquiries in early 2013, we received a letter dated 3 May 2013 from the SFC confirming they had concluded their investigation into Victory Securities (HK) in relation to the posting on its website during or around May 2011 to October 2012 certain information on two collective investment schemes, namely the “loss protection growth fund” and the “28-months capital guaranteed saving plan fund”, which were not authorised by the SFC (the “**Unauthorised CIS**”). Victory Securities (HK) had also printed 1,000 pamphlets (the “**Pamphlets**”) specifically for the 28-months capital guaranteed saving plan fund. The SFC noted that such actions by Victory Securities (HK) could run the risk of misleading the public that Victory Securities (HK) was issuing advertisements, invitations or documents relating to investments in the Unauthorised CIS to the public, thereby contravening section 103 and 107 of the SFO which prohibits such actions.

The SFC noted that the contents of the Unauthorised CIS posted on Victory Securities (HK)'s website and printed in the Pamphlets had been reviewed by Mr. Chiu and Ms. Kou and therefore considered that Mr. Chiu and Ms. Kou had failed to act diligently in the interest of Victory Securities (HK) and its clients as the responsible officer and compliance officer and executive director of Victory Securities (HK), respectively.

BUSINESS

The SFC advised Victory Securities (HK) and its responsible officers to: (i) remove any materials related to the Unauthorised CIS from Victory Securities (HK)'s website or restrict its access to only investors in the Unauthorised CIS; (ii) remove all Pamphlets from public areas; and (iii) to maintain appropriate policies for Victory Securities (HK)'s business in relation to the Unauthorised CIS and any unauthorised collective investments operated by Victory Securities (HK).

The SFC stated that the SFC did not propose to take any further action against Victory Securities (HK) in relation to Unauthorised CIS.

Save as disclosed above, our Directors, having made all relevant enquiries, are not aware of any other comments from the SFC regarding our internal control policies and procedures between 2013 to 2017 and up to the Latest Practicable Date and consider that there are no material deficiencies in our internal control procedures.

Taking into account the assessments and findings of the internal control advisor, as well as the remedial measures taken by us in connection with the internal control findings, deficiencies and historical non-compliance and disciplinary incidents, our Directors are of the view that the enhanced internal control measures are adequate and effective. In addition, our Board believes that (i) none of the above incidents involved any fraudulent act by our Directors in office at the relevant time, and did not raise any question as to the integrity of our Directors, and (ii) we have enhanced our internal control measures and effectively rectified all historical non-compliance and disciplinary incidents.

Our Directors are of the view of that they meet the standard of competence commensurate with their positions as directors of a listed issuer under Rules 5.01 and 5.02 of the GEM Listing Rules and that the non-compliance and disciplinary incidents described above will not affect the suitability of our Directors under Rules 5.01 and 5.02 of the GEM Listing Rules. The Sole Sponsor is not aware of any reasons to disagree with the aforementioned view of our Directors.

INSURANCE

We maintain insurance covering loss of client assets due to theft by employees or other fraudulent acts as required under the Securities and Futures (Insurance) Rules. We also maintain medical insurance and general insurance that covers office contents, business interruption, money, employee compensation and public liability. As major aspects of our operations have been covered by insurance, we believe we have taken out sufficient insurance coverage over our assets and employees. During the Track Record Period, there were no material insurance claims.

BUSINESS

EMPLOYEES

As at the Latest Practicable Date, we had 38 employees, who are working in Hong Kong. The table below sets forth a breakdown of the number of our employees by business functions:

	As at the Latest Practicable Date
Directors and senior management	4
Securities dealing and settlement	12
Finance and risk management	5
Compliance, HR and administration	8
Asset management and market research	7
Sales and marketing	2

We believe that our ability to recruit and retain experienced and skilled labour is key to our growth and development. We conduct recruitment ourselves and do not appoint employment agents. We provide employee orientation to our new employees and assign a mentor to integrate them into us. We conduct year-end performance appraisals of our employees to assess their overall development, performance and contribution.

All of our employees (other than self-employed account executives) are employed under employment contracts which set out fully, among other things, the employees’ responsibilities, remuneration and grounds for termination of employment. The remuneration packages of our employees (other than self-employed account executives) include salary and discretionary bonus.

BUSINESS

Generally, employee salaries are determined based on the employees’ qualification, experience, position and seniority. Overall, we believe that our remuneration package is competitive in the market. We have maintained good working relationships with our employees and does not foresee any difficulties in the recruitment and retention of experienced staff. We have not experienced any strikes, labour disputes or other labour disturbances which have materially and adversely interfered with our business operations.

Training policies

We are a licensed corporation under the SFO and the majority of our employees are licensed as Responsible Officers or Licensed Representatives. As such, we are required to comply with the continuous professional training requirements. The Responsible Officers and Licensed Representatives are required to undertake sufficient number of hours of continuous professional training in order to maintain their SFC licenses to carry on regulated activities. From time to time, we provide updates on changes or development in the financial industry including the revisions on rules and regulations to keep our relevant employees updated.

SELF-EMPLOYED ACCOUNT EXECUTIVES

Our self-employed account executives are solely responsible for handling their respective Referred Accounts. In view of their job nature, they are not entitled to any fixed monthly salary or statutory employment benefits. Instead, they are entitled to the pre-determined percentage of commission generated from their responsible Referred Accounts. For details of our arrangement with those self-employed account executives and our revenues derived from those Referred Accounts during the Track Record Period, please refer to sub-section headed “Our business model — (i) Securities broking services” in this section.

Notwithstanding that self-employed account executives are not our employees, they are licensed representatives of Victory Securities (HK) and their business activities are bound by the Code of Conduct and our internal control policies. As such, staff dealing monitoring procedures are extended to self-employed account executives and we did not experience any difficulties on the monitoring of our self-employed account executives during the Track Record Period and up to the Latest Practicable Date.

HEALTH, WORK SAFETY, SOCIAL AND ENVIRONMENTAL MATTERS

Due to our business nature, we are not subject to significant health, safety or environmental risks. To ensure compliance with applicable laws and regulations, our administration and finance department will from time to time, if necessary, consult with legal advisers, to ensure our human resources policies are up to date with the relevant labour and safety laws and regulations. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material accidents, claims for personal or property damage or compensation to employees and we did not experience any material non-compliance of health and work safety.

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fines or other penalties due to non-compliance with health, safety or environmental regulations.

BUSINESS

PROPERTIES

As at the Latest Practicable Date, we owned (i) a commercial premise in Sheung Wan, Hong Kong, which is our head office; (ii) an investment property; and (iii) a carparking space.

The details of our owned properties are as follows:

No.	Address	Registered Owner	Usage	Approximate saleable area (sq. ft.)
1.	Offices A, E & F, 11/F Yardley Commercial Building, No. 3 Connaught Road West, Hong Kong	Victory Securities (HK)	Office	2,595
2.	Flat D2, 9/F, King’s View Court, 901-907 King’s Road, Hong Kong	Victory Securities (HK)	Residential — rented to Independent Third Party	688
3.	Residential Carparking Space No. 5R236 on the 5th Floor of Tierra Verde, Tsing Yi Town Lot No. 132	Victory Securities (HK)	Car park — used by one of our Directors	N/A

Pursuant to Rule 8.01B(2)(a) of the GEM Listing Rules, if the carrying amount (as defined in Rule 8.01(1) of the GEM Listing Rules) of a property interest (as defined in Rule 8.01(3) of the GEM Listing Rules) is or is above 15% of its total assets (as defined in Rule 8.01(4) of the GEM Listing Rules), the document must include the full text of a valuation report for such property interest. As the carrying amount of our above owned properties (excluding the car park) exceeds 15% of our total assets as at 31 December 2017, being the date of the most recent audited consolidated statement of our financial position, in order to comply with Rule 8.01B(2)(a) of the GEM Listing Rules, property valuation reports in respect of our above owned properties (excluding the car park) are included in Appendix III to this document. According to such property valuation report, the market value of our above owned properties (excluding the car park) as at 30 April 2018 was HK\$58.0 million in aggregate. As at the Latest Practicable Date, the above properties (excluding the car park) were mortgaged for short-term bank loans from one of our major banks.

Save for our above owned properties, there is no single property interest that forms part of our non-property activities which has a carrying amount of 15% or more of our total assets as at the Latest Practicable Date.


BUSINESS

As at the Latest Practicable Date, we leased from an Independent Third Party the following properties for our operations:

Address	Registered owner	Usage	Approximate floor area (sq. ft.)	Duration of lease	Rental fee
Office B, 11/F, Yardley Commercial Building, 3 Connaught Road West, Hong Kong	Independent Third Parties	Office	845	1 March 2017 and expiring on 28 February 2020 (both days inclusive)	HK\$40,000 per month (exclusive of management fee and rates)

INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we were the registrant of one domain name, namely, <http://www.victorysec.com.hk>.

On [●] 2018, our Company as licensee, and DTTKF, as licensor, entered into a trademark licence deed pursuant to which DTTKF [has granted] an exclusive right to our Group to use the trademark “ 勝利證券有限公司”. For further details of the licence, please refer to the section headed “Connected transactions – B. Trademark licence deed” in this document.

To the best of our Directors’ knowledge, apart from Victory Securities (HK), there are no other Hong Kong companies using “Victory Securities” as their company names.

LITIGATION AND CLAIMS

As at the Latest Practicable Date neither our Company nor any of our subsidiaries had been engaged in any litigations, arbitrations or claims of material importance and no litigations, arbitrations or claims of material importance is known by our Directors to be pending or threatened by or against us.

BUSINESS

AWARDS AND RECOGNITION

We have received various awards in recognition of our services, among which include the following:

Award Year	Awards/Recognition	Awarding Institution/ Authority
2017	“The Most Diverse Services Securities Firm” in “2016 Most Popular Greater China Securities Firm” Award Participation (《2016 最受歡迎大中華區證券商》之「最佳多元化服務證券商」)	Hong Kong Commercial Daily (香港商報)
	“Outstanding eCommerce Excellence Award 2017 (傑出電子商務大獎2017)	Economic Digest (經濟一週)
2015	Metro Awards for Banking & Finance Corporations — “The Best Global Trading Securities Award” (「都市盛世銀行及金融服務企業獎」的最佳環球投資券商大獎)	Metro Prosperity (都市盛世)
	cnfol.com Finance Ranking — “The Best Hong Kong Securities Trader” (「中金在線財經排行榜」最佳港股券商)	cnfol.com (中金在線)
2014	Prime Awards for Banking & Finance Corporations — The Best Wealth Management Golden Award and Best Investment Immigration Consultant Award (「都市盛世銀行及金融服務企業獎」的最佳財富管理金獎及最佳投資移民顧問獎)	Metro Prosperity (都市盛世)
2013	Prime Awards for Banking & Finance Corporations — The Best Wealth Management Securities Firm Award (「都市盛世銀行及金融服務企業獎」的最佳財富管理獎)	Metro Prosperity (都市盛世)
2012	The Best Securities Services Awards (證券服務服務大獎)	Capital Weekly (資本一周)
	cnfol.com Finance Ranking — “The Most Reliable Securities Firm” (「中金在線財經排行榜」最受投資者信賴券商)	cnfol.com (中金在線)
2011	“The Best Risk Management Securities Firm” in “Banking & Finance Corporations” Award Participation (“2011年銀行及金融服務企業獎- 最佳風險管理獎”)	Metro Prosperity (都市盛世)

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Award Year	Awards/Recognition	Awarding Institution/ Authority
2010	Mainland Tourists' Most Favoured Brands in Hong Kong and Macau — The most Credible Securities Firm (「內地遊客港澳消費首選品牌」最值得信賴券商獎)	Guangzhou Tourism and Culture Association and Fortune Living Magazine (廣東省旅遊文化協會與《財富生活》雜誌)
	The Best Performance Company Awards 2010 (優質資產管理)	Capital Weekly (資本一周)
	“The Best Asset Management Securities Firm 2010” in The Most Popular Hong Kong Securities Firm Selection 「最受歡迎香港證券商評選」(最佳資產管理証券獎)	Global Commercial Newspapers Union and Hong Kong Commercial Daily (全球商報聯盟與香港商報)
2009	The Best Securities Firm (management) in 2007/2008 Hong Kong Best Securities Selection — (《香港最佳證券評選》香港最佳管理券商)	Global Commercial Newspaper Union and Hong Kong Commercial Daily (全球商報聯盟與香港商報)