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Post Hearing Information Pack of



勝利證券有限公司
Victory Securities Co., Ltd.
(香港聯合交易所參與者)
(Participant of The Stock Exchange of HK Ltd.)

Victory Securities (Holdings) Company Limited **勝利證券(控股)有限公司** (the “Company”)

(Incorporated in the Cayman Islands with limited liability)

WARNING

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IMPORTANT

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



勝利證券有限公司
Victory Securities Co., Ltd.
(香港聯合交易所參與者)
(Participant of The Stock Exchange of HK Ltd.)

Victory Securities (Holdings) Company Limited 勝利證券(控股)有限公司 (Incorporated in the Cayman Islands with limited liability)

[REDACTED]

Number of [REDACTED] : [REDACTED] Shares (subject to the [REDACTED])
Number of [REDACTED] : [REDACTED] Shares (subject to reallocation and the [REDACTED])
Number of [REDACTED] : [REDACTED] Shares (subject to reallocation)
[REDACTED] : Not more than [REDACTED] per [REDACTED] and expected to be not less than [REDACTED] per [REDACTED] (payable in full on application in Hong Kong dollars and subject to refund, plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%)
Nominal value : HK\$0.01 per Share
Stock code : [REDACTED]

Sole Sponsor



[REDACTED]

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[REDACTED]

The [REDACTED] is expected to be determined by agreement between the [REDACTED] (for themselves and on behalf of the [REDACTED]) and us on the [REDACTED] Date or such later date as may be agreed by the [REDACTED] (for themselves and on behalf of the [REDACTED]), and us, but in any event not later than [REDACTED]. The [REDACTED] will not be more than [REDACTED] per [REDACTED] and is currently expected to be not less than [REDACTED] per [REDACTED] unless otherwise announced. If we and the [REDACTED] (for themselves and on behalf of the [REDACTED]) are unable to reach an agreement on the [REDACTED] by that date or such later date as agreed by us and the [REDACTED] (for themselves and on behalf of the [REDACTED]), the [REDACTED] will not become unconditional and will not proceed. In such case, we will make an announcement immediately on the Stock Exchange's website at www.hkexnews.hk and our website at www.victorysec.com.hk. The [REDACTED] may with our prior consent reduce the indicative [REDACTED] range below such indicative [REDACTED] range as stated in this document at any time prior to the [REDACTED]. If this occurs, a notice of reduction of the indicative [REDACTED] range will be published on the Stock Exchange's website at www.hkexnews.hk and our website at www.victorysec.com.hk.

Prior to making an investment decision, prospective investors should carefully consider all the information set out in this document, including the risk factors set out in the section headed “Risk Factors” in this document.

Prospective investors of the [REDACTED] should note that the Sole Sponsor and/or the [REDACTED] (for themselves and on behalf of the [REDACTED]) are entitled to terminate their obligations under the [REDACTED] by notice in writing to our Company, upon the occurrence of any of the events set out under the paragraph headed “[REDACTED]” in this document at any time prior to 8:00 a.m. (Hong Kong time) on the [REDACTED].

The [REDACTED] have not been and will not be registered under the U.S Securities Act of 1933, as amended (the “Securities Act”) or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, except that the [REDACTED] may be offered, sold or delivered to (i) qualified institutional buyers in reliance on an exemption from registration under the Securities Act provided by, and in accordance with the restrictions of Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or (ii) outside the United States in offshore transactions in accordance with Regulation S under the Securities Act.

[REDACTED]

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Main Board. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

EXPECTED TIMETABLE

[REDACTED]

EXPECTED TIMETABLE

[REDACTED]

EXPECTED TIMETABLE

[REDACTED]

CONTENTS

This document is issued by us solely in connection with the [REDACTED] and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the [REDACTED]. This document may not be used for the purpose of, and does not constitute an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a [REDACTED] of the [REDACTED] in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this document in any jurisdiction other than Hong Kong. The distribution of this document and the [REDACTED] and sales of the [REDACTED] in other jurisdictions are subject to restrictions, and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this document and the [REDACTED] to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this document. Any information or representation not made in this document must not be relied on by you as having been authorised by us, the Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED], any of their respective affiliates, directors, officers, employees, agents or representatives, or any other person or party involved in the [REDACTED].

The contents of our website at www.victorysec.com.hk do not form part of this document.

	<i>Page</i>
CHARACTERISTICS OF GEM	i
EXPECTED TIMETABLE	ii
CONTENTS	v
SUMMARY	1
DEFINITIONS	11
GLOSSARY OF TECHNICAL TERMS	22
FORWARD-LOOKING STATEMENTS	24
RISK FACTORS	25
INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]	46
WAIVERS FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES	51
DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]	54
CORPORATE INFORMATION	58
INDUSTRY OVERVIEW	60

CONTENTS

	<i>Page</i>
REGULATORY OVERVIEW	70
HISTORY, DEVELOPMENT AND REORGANISATION	83
BUSINESS	95
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS	184
CONNECTED TRANSACTIONS	194
DIRECTORS, SENIOR MANAGEMENT AND STAFF	206
[REDACTED]	217
SUBSTANTIAL SHAREHOLDERS	219
SHARE CAPITAL	220
FINANCIAL INFORMATION	223
BUSINESS OBJECTIVES AND FUTURE PLANS	251
[REDACTED]	257
STRUCTURE AND CONDITIONS OF THE [REDACTED]	266
HOW TO APPLY FOR THE [REDACTED]	273
APPENDIX I — ACCOUNTANTS’ REPORT	I-1
APPENDIX II — UNAUDITED PRO FORMA FINANCIAL INFORMATION	II-1
APPENDIX III — PROPERTY VALUATION	III-1
APPENDIX IV — SUMMARY OF THE CONSTITUTION OF THE COMPANY AND THE CAYMAN ISLANDS COMPANY LAW	IV-1
APPENDIX V — STATUTORY AND GENERAL INFORMATION	V-1
APPENDIX VI — DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION	VI-1

SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this document. You should read the whole document including the appendices hereto, which constitute an integral part of this document, before you decide to invest in the [REDACTED].

There are risks associated with any investment. Some of the particular risks in investing in the [REDACTED] are set out in the section headed “Risk Factors” in this document. You should read that section carefully before you decide to invest in the [REDACTED].

Various expressions used in this summary are defined under the sections headed “Definitions” and “Glossary of Technical Terms” in this document.

OVERVIEW

Founded in the early 1970s, we are a well-established integrated securities broker in the Hong Kong financial services industry. Our services enable our clients to trade securities listed on the Stock Exchange, the Shanghai Stock Exchange, Shenzhen Stock Exchange as well as the exchanges in Australia, Canada, Europe, Japan, Singapore, the United Kingdom, the United States and B shares in the PRC, 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.

[REDACTED]

Our main services include the following:

- **Securities broking 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 on exchanges 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. We also provide placing services for debt securities in fund raising exercises. For the years ended 31 December 2016 and 2017, commission and brokerage income generated from self-employed account executives and licensed employees (exclusive of staff dealings) were HK\$10.9 million and HK\$15.7 million, respectively, which accounted for 45.7% and 33.5% of our total revenue generated from our securities broking services. For the years ended 31 December 2016 and 2017, commission and brokerage income generated from staff dealing were HK\$0.2 million and HK\$0.2 million, which accounted for 0.8% and 0.3%, respectively, of our total revenue generated from our securities broking services, which were immaterial.
- **Financing services:** We provide credit facilities to our clients who wish to purchase securities on the Stock Exchange or make applications for IPOs on a margin basis. We also provide trading facilities to our clients and generate interest income from our cash account clients on their overdue debit balance.
- **Asset management services:** We provide asset management services on a discretionary basis. The majority of our asset management clients are applicants of the Capital Investment Entrant Scheme (“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 by maintaining their capital commitment in Hong Kong as required in the CIES. As at 31 December 2017, we had 24 clients receiving our asset management services with a total AUM of HK\$207.7 million, 20 of which were CIES clients with a total AUM of HK\$200.3 million.

SUMMARY

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. It is a participant of HKSCC and since November 2014, has been a China Connect Exchange Participant and a China Connect Clearing Participant. We did not engage in dealing in future contracts during the Track Record Period but we are resuming our futures brokerage business.

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

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 employees, self-employed account executives or by existing 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 period, 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 were mainly involved in our securities broking services and had 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.

SUPPLIERS

Due to the nature of our principal business activities, we have no major suppliers and 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. We engage certain IT vendors which facilitate the operation of our trading platform and the provision of securities market information and price quotations.

COMPETITIVE STRENGTHS AND STRATEGIES

Our Directors are of the view that our positioning as a financial service provider in Hong Kong together with the following competitive strengths contribute to our success and differentiate us from our competitors: (i) we nurture talent and maintain an experienced and stable management team; (ii) 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; (iii) we provide an integrated trading platform to our clients with access to the major financial markets in the world; (iv) we are committed to providing a wide range of quality financial services to our clients; and (v) we possess a prudent risk management system. For further information, see “Business — Competitive strengths.”

We intend to implement the following strategies to further develop our business extensively and create value for our Shareholders: (i) enlarge the capacity of our financing services; (ii) upgrade our portfolio management system and order management system; (iii) engage in proprietary trading; (iv) expand our client network with a focus on high net worth and institutional clients; (v) enter into the corporate finance advisory business and resume the futures brokerage business; and (vi) enhance our research capabilities and asset management service. For further information, see “Business — Business strategies”.

SUMMARY

KEY OPERATIONAL DATA

The following table sets out our certain key operational data for the years or as at the dates indicated:

	As at or for the year ended	
	31 December	
	2016	2017
Securities brokerage trading turnover (<i>HK\$ in millions</i>)	745,182	1,446,959
Average brokerage commission rate ⁽¹⁾ (<i>bps</i>)	21.6	20.7
Balance of margin loans (<i>HK\$ in millions</i>)	80.1	96.2
Margin value ⁽²⁾ (<i>HK\$ millions</i>)	77.3	118.5
Loan-to-margin ratio ⁽³⁾	103.7%	81.2%
Loan-to-value ratio ⁽⁴⁾	31.8%	27.5%
AUM (<i>HK\$ in millions</i>)	213.1	207.7

Notes:

- (1) 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 trader clients and U.S. market clients), for the same year.
- (2) Margin value refers to the market value of the securities pledged with us as collateral for margin financing multiplied by the lending ratio of the respective securities. It indicates the quality of collaterals held by a brokerage house.
- (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 same dates.
- (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.

KEY FINANCIAL DATA

The table below sets out a summary of our consolidated financial information for each of the years ended 31 December 2016 and 2017, which has been extracted from the Accountants’ Report:

Highlights of consolidated statements of profit or loss

	Year ended 31 December	
	2016	2017
	<i>HK\$</i>	<i>HK\$</i>
Revenue	30,234,835	56,433,162
Other income and gains/(losses), net	3,189,133	7,912,341
	33,423,968	64,345,503
Commission expenses	(3,696,937)	(7,027,489)
Depreciation	(1,757,107)	(2,113,746)
Staff costs	(10,057,423)	(15,336,578)
Other operating expenses	(7,842,403)	(17,068,586)
Finance costs	(1,207,427)	(1,570,457)
Profit before tax	8,862,671	21,228,647
Income tax expense	(1,768,473)	(3,575,564)
Profit for the year	7,094,198	17,653,083

SUMMARY

Our profits increased from HK\$7.1 million for the year 2016 to HK\$17.7 million for the year 2017. The increase was mainly due to (i) increase in brokerage income derived from securities dealing by our clients largely in the Hong Kong market; (ii) recognition of placing commission income as we commenced placing of debt securities as a placing agent for listed clients; (iii) revaluation gains on investment properties which were capital in nature and not subject to Hong Kong profits tax. For details, please refer to the paragraph headed “Financial Information - Description and comparison of principal items in the consolidated statements of profit or loss” in this document.

Revenue by business segment

The table below sets out the breakdown of our revenue derived from each business segment during the Track Record Period:

	Year ended 31 December			
	2016		2017	
	HK\$	% of revenue	HK\$	% of revenue
Securities broking services	23,832,126	78.8	46,937,968	83.2
Financing services	5,685,918	18.8	7,267,365	12.9
Asset management services	716,791	2.4	2,227,829	3.9
Total:	<u>30,234,835</u>	<u>100.0</u>	<u>56,433,162</u>	<u>100.0</u>

Our total revenue increased by HK\$26.2 million or 86.6% from HK\$30.2 million for the year ended 2016 to HK\$56.4 million for the year 2017. Such increase was mainly due to a substantial increase in income from our securities broking services for the year 2017 as compared to the previous year. For details, please refer to the paragraph headed “Financial Information — Description and comparison of principal items in the consolidated statements of profit or loss — Revenue by business segment” in this document.

Principal cost components

The principal components of our expenses were commission expenses, staff costs and other operating expenses. For details, please refer to the paragraph headed “Financial Information — Description and comparison of principal items in the consolidated statements of profit or loss” in this document.

Highlights of consolidated statements of financial position

	As at 31 December	
	2016 HK\$	2017 HK\$
Non-current assets	79,420,961	61,373,602
Current assets	156,462,633	349,955,681
Current liabilities	93,719,705	261,510,366
Non-current liabilities	6,449,366	6,356,194
Equity	135,714,523	143,462,723

SUMMARY

Our current assets increased from HK\$156.5 million for the year 2016 to HK\$350.0 million for the year 2017. Such increase was mainly due to the increase in trade receivables by HK\$187.5 million mainly due to the increase in client money deposited with an external broker. Our current liabilities increased from HK\$93.7 million for the year 2016 to HK\$261.5 million for the year 2017. Such increase was mainly due to the net repayment of bank borrowings by HK\$9.5 million, offset by the increase in trade payables by HK\$171.7 million. The increase in trade payables was mainly due to the increase in client money being deposited in the accounts opened with our Group.

For the year 2017, a client deposited HK\$195.0 million in securities accounts opened with us. The ultimate beneficial owner of such client was a businessman with over 15 years’ experience in the securities and brokerage industry. Pursuant to client instructions, we in turn placed the fund with an external broker providing a platform for securities trading on the exchanges in the United States. As at the Latest Practicable Date, HK\$176.6 million of the client money was transferred back to our client. For further information, please refer to the paragraph headed “Financial Information — Description and analysis of principal items in the consolidated statements of financial position — Trade payables” in this document.

Highlights of consolidated statements of cash flows

	Year ended 31 December	
	2016	2017
	HK\$	HK\$
Cash flow generated from operating activities before changes in working capital and taxes paid	11,373,099	17,368,390
Net cash flow from operating activities	35,961,765	2,069,734
Net cash flow from investing activities	405,098	24,230,699
Net cash flow used in financing activities	(32,957,106)	(25,495,882)
Net increase in cash and cash equivalents	3,409,757	804,551
Cash and cash equivalents at beginning of year	4,784,981	8,194,738
Cash and cash equivalents at end of year	8,194,738	8,999,289

We recorded net cash flow from operating and investing activities for the years 2016 and 2017. We recorded net cash used in financing activities for the years 2016 and 2017, which was mainly due to net repayment of bank borrowings. For details, please refer to the paragraph headed “Financial Information — Liquidity and capital resources” in this document.

FINANCIAL RATIOS

	Year ended 31 December	
	2016	2017
Net profit margin before interest and tax	33.3%	40.4%
Net profit margin	23.5%	31.3%
Return on equity	5.2%	12.3%
Return on total assets	3.0%	4.3%

SUMMARY

	As at 31 December	
	2016	2017
	HK\$	HK\$
Current ratio	1.7	1.3
Quick ratio	1.7	1.3
Gearing ratio	42.0%	33.1%
Debt to equity ratio	36.0%	26.8%

Our net profit margin increased from 23.5% for the year 2016 to 31.3% for the year 2017. The increase in net profit margin was mainly due to the increase in revenue for the year 2017. Due to the nature of our business, our major expenses are to a large extent fixed in nature (except for expenses directly correlated to trading turnover of our client, such as commission expenses and exchange and clearing fee). Accordingly, an increase in our revenue will have a positive impact on our net profit margin. For details, please refer to the paragraph headed “Financial Information — Key financial ratios” in this document.

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Capitalisation Issue and the [REDACTED] (without taking into account any Shares which may be issued upon the exercise of the [REDACTED] and any options which may be granted under the Share Option Scheme), our Company will be owned as to [REDACTED] by DTTKF. DTTKF is owned as to approximately 66.63%, 10.50%, 6.71%, 2.00%, 1.89%, 3.78%, 0.94%, 0.94%, 3.31%, 1.35%, 0.60%, 1.30% and 0.05% by Ms. Kou, Ms. Kou Luen, Mr. Chan, Mr. Chiu, Mr. Ko Yuen Fai, Mr. Ko Yuen Kwan, Mr. Ko Yuen San, Mr. Ko Yuen Sing, Ms. Kwok Lo Ming, Ms. Meng Li, Mr. Sze Tung, Mr. Yeung Tak Kuen and Mr. Chan Pui Chuen, respectively. As DTTKF and Ms. Kou will be directly or indirectly entitled to exercise or control the exercise of 30% or more of the voting power at the general meetings of our Company immediately following the [REDACTED], each of DTTKF and Ms. Kou shall be regarded as a Controlling Shareholder under the GEM Listing Rules.

In addition, on the basis that Ms. Kou Luen, Mr. Chan, Mr. Chiu, Mr. Ko Yuen Fai, Mr. Ko Yuen Kwan, Mr. Ko Yuen San, Mr. Ko Yuen Sing, Ms. Kwok Lo Ming, Ms. Meng Li, Mr. Sze Tung, Mr. Yeung Tak Kuen and Mr. Chan Pui Chuen (the “**Other DTTKF Shareholders**”) together with Ms. Kou hold their respective interest in our Company through a common investment holding company, namely, DTTKF, the Other DTTKF Shareholders are regarded as a group of Controlling Shareholders of our Company together with Ms. Kou and DTTKF. For further details, please refer to the section headed “Relationship with our Controlling Shareholders” in this document.

SUMMARY OF PROMINENT RISK FACTORS

There are certain risks relating to investment in the [REDACTED]. Some of the particular risks in investing in the [REDACTED] are further described in the section headed “Risk Factors” in this document. You should read that section carefully before you decide to invest in the [REDACTED]. We believe some of the significant risk factors that are specific to our operations include:

- (i) Volatility in the performance of the financial markets could materially and adversely affect our business;
- (ii) We rely heavily on the BSS to execute our securities trading orders, any failure of the BSS may have a material adverse effect on our business;

SUMMARY

- (iii) Our business operations are concentrated in Hong Kong and any material deterioration in the economic, political and regulatory environment in Hong Kong could materially and adversely affect our business and prospects;
- (iv) We are subject to extensive regulatory requirements. Non-compliance with such requirements could cause us to incur fines, restriction on our activities or even suspension or revocation of some or all of our licences for carrying on our business activities;
- (v) 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; and
- (vi) We rely on applicants of the CIES as a source of clients.

REASONS FOR THE [REDACTED]

Our Directors believe that the [REDACTED] will enhance our profile, strengthen our financial position and competitiveness, and provide us with additional capital to implement our future plans.

[REDACTED] STATISTICS

The statistics in the following table are based on the assumptions that: (i) the [REDACTED] is completed and [REDACTED] Shares are issued and sold in the [REDACTED]; (ii) the [REDACTED] is not exercised; (iii) it does not take into account any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme; and (iv) [REDACTED] Shares are issued and outstanding upon completion of the [REDACTED].

	Based on an [REDACTED] of [REDACTED] per [REDACTED]	Based on an [REDACTED] of [REDACTED] per [REDACTED]
Market capitalisation of our Shares	[REDACTED]	[REDACTED]
Unaudited pro forma adjusted consolidated net tangible asset value per Share ⁽¹⁾⁽²⁾⁽³⁾	[REDACTED]	[REDACTED]

Notes:

- (1) The unaudited pro forma adjusted consolidated net tangible asset value per Share is calculated after making the adjustments referred to in “Appendix II — Unaudited pro forma financial information.”
- (2) No adjustment has been made to reflect any trading results or other transactions of our Group entered into subsequent to 31 December 2017.
- (3) The unaudited pro forma adjusted consolidated net tangible assets value per Share of the Group as at 31 December 2017 did not take into account the dividend of HK\$8,000,000 declared and paid, pursuant to a shareholder’s resolution dated 12 February 2018, details of which are disclosed in the paragraph headed “Financial Information — Dividend” in this document. Had the declaration of the dividends been taken into account, the unaudited pro forma adjusted consolidated net tangible assets value per Share of the Group would have been reduced to [REDACTED] and [REDACTED] based on a minimum [REDACTED] of [REDACTED] per [REDACTED] and on a maximum [REDACTED] of [REDACTED] per [REDACTED], respectively.

SUMMARY

FUTURE PLANS AND [REDACTED]

Assuming an [REDACTED] of [REDACTED] (being the mid-point of the [REDACTED] range) and the [REDACTED] not being exercised, we estimate that we will receive [REDACTED] from the [REDACTED] (after deduction of estimated total [REDACTED] paid or payable by us) of [REDACTED]. We intend to use the [REDACTED] to achieve our business objectives from the Latest Practicable Date up to 31 December 2020 as follows:

**[REDACTED] used
(amount and %)**

[REDACTED] used (amount and %)	Objectives	Activities
[REDACTED] or [REDACTED]	Enlarge the capacity of our financing services <i>(note)</i>	<ul style="list-style-type: none">• make [REDACTED] available as capital for our margin financing business, including but not limited to A shares via Shanghai Connect and Shenzhen Connect
[REDACTED] or [REDACTED]	Upgrade our portfolio management system and order management system	<ul style="list-style-type: none">• engage vendor to help us develop an integrated trading system in phases
[REDACTED] or [REDACTED]	Proprietary trading	<ul style="list-style-type: none">• capture low-risk opportunities
[REDACTED] or [REDACTED]	Expand our client network with a focus on high net worth and institutional clients	<ul style="list-style-type: none">• increase market exposure by advertising through different channels such as television, and MTR billboards etc.• host marketing campaigns• hire business development and sales teams as appropriate
[REDACTED] or [REDACTED]	Enter into the corporate finance advisory business	<ul style="list-style-type: none">• hire experienced personnel as appropriate
[REDACTED] or [REDACTED]	Enhance our research capabilities and asset management service	<ul style="list-style-type: none">• hire additional personnel to conduct research report for the asset management team and institutional investors, as appropriate• expand our investment channels in the capital market• set up and launch a public fund after the [REDACTED]
[REDACTED] or [REDACTED]	Working capital and other general corporate purposes	

SUMMARY

Note:

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. Our bank borrowings refer to available bank facilities of HK\$190 million used for our margin financing and short term IPO financing comprising of (i) certain overdrafts with interest charged at Hong Kong Prime Rate / Hong Kong Prime Rate + 0.5% per annum or HIBOR + 2.3% per annum and (ii) revolving term loans with interest charged at HIBOR + 1.9%/2.25% per annum based on 1week tenor. Such facilities from Bank A mature on 6 October 2018 while facilities from Bank B are subject to review on 31 May 2019. For further details of our bank borrowings, please refer to the paragraph headed “Business — Our business model — (ii) Financing services — External bank borrowings” in this document.

As at 30 April 2018, the Group had a cash balance of HK\$8.4 million and an unutilised banking facilities of HK\$116.9 million, which mostly consisted of revolving term loans. Revolving term loans typically incur lower financing costs as compared to the overdrafts as it normally requires the repledging of collateral securities from margin clients.

The repledging of collateral securities is subject to certain statutory requirements. For instance, the maximum aggregate market value of repledged securities must not exceed 140% of the value of margin loan balance at the end of a trading day and when calculated on a client-by-client basis, any amount receivable from any of its margin clients, shall include in its ranking liabilities if it exceeds 10% of the aggregate of amounts receivable from its margin portfolio. In addition, repledged securities are subject to the bank’s lending ratio which varies between 0% to 90% during the Track Record Period.

Assuming that the bank’s lending ratio of repledged securities is 50%, the Group can only borrow 70% of the margin loans it lent to margin clients from the bank every time when it repledges collateral securities. Accordingly, using the entire cash balance of HK\$8.4 million, the maximum amount of margin loan the Group can lend to its margin clients will be about HK\$28.0 million and an additional banking facilities of HK\$19.6 million will be utilised.

With [REDACTED] of [REDACTED] (based on the mid-point of the Indicative [REDACTED] range) to be used for margin financing business, it is estimated that the Group can lend a further HK\$75.3 million margin loans to its margin clients and utilise a further HK\$52.7 million banking facilities, assuming the statutory requirements for repledging securities and the bank’s lending ratio of repledging securities of 50% remain unchanged. Assuming the Group utilising its entire cash balance of HK\$8.4 million and the [REDACTED] of [REDACTED], the unutilised banking facilities will be reduced to about HK\$44.6 million.

For details of our future plans, [REDACTED] and the implementation plans, please see the section headed “Business Objectives and Future Plans” in this document.

DIVIDENDS

During the years ended 31 December 2016 and 2017, we declared dividends of HK\$20.8 million and HK\$14.5 million to all its then shareholders. On 12 February 2018, we further declared a dividend of HK\$8.0 million to DTTKF out of our retained earnings of HK\$13.4 million, which was satisfied by our internal resources.

Our retained earnings accrued from 1 January 2018 onwards will be shared among all our Shareholders. For further details please refer to the paragraph headed “Financial Information — Dividends” in this document. The declaration of future dividends will be subject to our Directors’ decision and will depend on, among other things, our earnings, cash flow, financial condition, capital requirements, statutory reserve requirements and any other factors our Directors may consider relevant. The amount of dividend will be determined upon the completion of financial audit and will be referred to distributable profit shown on audited financial report. Currently, we do not have any predetermined dividend distribution ratio.

SUMMARY

[REDACTED]

Our Directors are of the view that our financial results for the year ending 31 December 2018 are expected to be adversely affected by, among others, the [REDACTED] in relation to the [REDACTED], the nature of which is non-recurring. [REDACTED] directly attributable to issuing the [REDACTED] are recognised in equity, while other [REDACTED] are recognised as other operating expenses in our consolidated statements of profit or loss. The total [REDACTED] in relation to the [REDACTED], primarily consisting of fees paid or payable to professional parties and [REDACTED] payable to the [REDACTED], are estimated to be [REDACTED] (based on the mid-point of the indicative [REDACTED] range). Among the estimated total [REDACTED], (i) [REDACTED] is expected to be accounted for as a deduction from equity upon [REDACTED]; (ii) [REDACTED] is expected to be recognised as expenses in our consolidated statements of profit or loss, of which [REDACTED] and [REDACTED] were charged to the consolidated statements of profit or loss for the years ended 31 December 2016 and 2017 respectively and the remaining of [REDACTED] is expected to be charged to our consolidated statements of profit or loss for the year ending 31 December 2018.

Prospective investors should note that our financial performance for the year ending 31 December 2018 is expected to be adversely affected by the estimated non-recurring [REDACTED] mentioned above, and may or may not be comparable to our financial performance in the past.

RECENT DEVELOPMENT AND MATERIAL ADVERSE CHANGE

Save for the impact of the [REDACTED], our Directors confirm that as at the date of this document, there had been no material adverse change in our financial or trading position or prospects since 31 December 2017, being the date on which our latest audited financial information was prepared and there had been no event since 31 December 2017 which would materially and adversely affect the information shown in our consolidated financial information included in the Accountants' Report as set out in the Appendix I to this document.

Without taking into account the impact of non-recurring [REDACTED], we expect net profit for the year ending 31 December 2018 will decrease compared to the previous year due to a drop in fair value gains on financial assets at fair value through profit or loss due to depressed stock markets in 2018 compared to the previous year, a drop in revaluation gains on investment properties, a decrease in asset management fee from depressed stock markets in 2018 and rises in staff costs and other operating expenses in 2018 compared to the previous year.

NON-COMPLIANCE, DISCIPLINARY AND INSPECTION ACTIONS

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

DEFINITIONS

In this document, unless the context otherwise requires, the following terms shall have the meanings set out below.

“Accountants’ Report” the accountants’ report of our Group prepared by the Reporting Accountants set out in Appendix I to this document

“affiliate(s)” with respect to any person, any other person(s) directly or indirectly controlling or controlled by or under direct or indirect common control with such specified person

[REDACTED]

“Articles of Association” or “Articles” the articles of association of our Company conditionally adopted on 14 June 2018 (with effect from the [REDACTED]) and as amended, supplemented and otherwise modified from time to time, a summary of which is set out in Appendix IV to this document

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

“Australia” the Commonwealth of Australia

“Board” or “our Board” the board of Directors

“Brokerage Service Agreement(s)” brokerage service agreement(s) dated 14 June 2018 entered into between Victory Securities (HK) and each of Ms. Kou, Mr. Chiu, Mr. Chan Pui Chuen, Mr. Chan, Ms. Chan Pui King and Mr. Ko Yuen Kwan respectively in relation to the provision of brokerage services to them and their associates, where applicable

“business day” a day on which licensed banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong

“BVI” the British Virgin Islands

“CAGR” compound annual growth rate

“Canada” Canada, its territories, its possessions and all areas subject to its jurisdiction

DEFINITIONS

“Capitalisation Issue”	the issue of [REDACTED] Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in the paragraph headed “4. Written resolutions of our sole Shareholder” under the section headed “A. Further information about our Company and the subsidiaries” in Appendix V to this document
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant(s)”	a person(s) admitted to participate in CCASS as a direct clearing participant(s) or general clearing participant(s)
“CCASS Custodian Participant(s)”	a person(s) admitted to participate in CCASS as a custodian participant(s)
“CCASS Investor Participant(s)”	a person(s) admitted to participate in CCASS as an investor participant(s) who may be an individual or joint individuals or a corporation(s)
“CCASS Participant(s)”	a CCASS Clearing Participant(s), a CCASS Custodian Participant(s) or a CCASS Investor Participant(s)
“Chairman”	the Chairman of the Board
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this document, Hong Kong, Macau and Taiwan
“close associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Companies Law” or “Cayman Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Company”, “our Company”, “we”, “us” or “our”	Victory Securities (Holdings) Company Limited (勝利證券(控股)有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 22 August 2016, and, except where the context otherwise requires, all of its subsidiaries or where the context refers to any time prior to its incorporation, the business which its predecessors or the predecessors of its present subsidiaries were engaged in and which was subsequently assumed by it
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Connected Service Agreement(s)”	collectively, Brokerage Service Agreement(s) and Financing Service Agreement(s)
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the GEM Listing Rules and, for the purpose of this document, unless the context requires otherwise, means the controlling shareholders of our Company, namely Ms. Kou, Ms. Kou Luen, Mr. Chan, Mr. Chiu, Mr. Ko Yuen Fai, Mr. Ko Yuen Kwan, Mr. Ko Yuen San, Mr. Ko Yuen Sing, Ms. Kwok Lo Ming, Ms. Meng Li, Mr. Sze Tung, Mr. Yeung Tak Kuen, Mr. Chan Pui Chuen and DTTKF
“core connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
	[REDACTED]
“Deed of Indemnity”	the deed of indemnity dated 14 June 2018 entered into by each of our Controlling Shareholders in favour of our Company (for ourselves and as trustee for and on behalf of our subsidiaries), details of which are set out in the paragraph headed “E. Other information — 1. Tax indemnity and other indemnity” in Appendix V to this document
“Deed of Non-Competition”	the deed of non-competition undertaking dated 14 June 2018 entered into by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for and on behalf of our subsidiaries), details of which are set out in the section headed “Relationship with our Controlling Shareholders” in this document
“Director(s)”	the director(s) of our Company
“Dr. Li Ning”	Dr. Li Ning (李寧) the chief economist of Victory Securities (HK)

DEFINITIONS

“DTTKF”	Dr. TT Kou’s Family Company Limited, a company incorporated in the BVI on 17 August 2016 with limited liability, which is owned by Ms. Kou, Ms. Kou Luen, Mr. Chan, Mr. Chiu, Mr. Ko Yuen Fai, Mr. Ko Yuen Kwan, Mr. Ko Yuen San, Mr. Ko Yuen Sing, Ms. Kwok Lo Ming, Ms. Meng Li, Mr. Sze Tung, Mr. Yeung Tak Kuen and Mr. Chan Pui Chuen in the proportion of approximately 66.63%, 10.50%, 6.71%, 2.00%, 1.89%, 3.78%, 0.94%, 0.94%, 3.31%, 1.35%, 0.60%, 1.30% and 0.05%, respectively, and is one of our Controlling Shareholders
“DTTKF Shareholders Agreement”	the shareholders agreement dated 22 May 2017 entered into between all shareholders of DTTKF (namely, Mr. Chan, Mr. Chan Pui Chuen, Mr. Chiu, Mr. Ko Yuen Fai, Mr. Ko Yuen Kwan, Mr. Ko Yuen San, Mr. Ko Yuen Sing, Ms. Kou, Ms. Kou Luen, Ms. Kwok Lo Ming, Ms. Meng Li, Mr. Sze Tung and Mr. Yeung Tak Kuen) and DTTKF, details of which are set out in the section headed “Relationship with our Controlling Shareholders” in this document
“Financing Service Agreement(s)”	financing service agreement(s) dated 14 June 2018 entered into between Victory Securities (HK) and each of Ms. Kou, Mr. Chiu, Mr. Chan Pui Chuen, Mr. Chan, Ms. Chan Pui King and Mr. Ko Yuen Kwan respectively in relation to the provision of financing services to them and their associates, where applicable
“FRR”	the Securities and Futures (Financial Resources) Rules (Chapter 571N of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Futures Exchange”	the Hong Kong Futures Exchange Limited
“FVTPL”	fair value through profit or loss
“FY2016”	the financial year ended 31 December 2016
“FY2017”	the financial year ended 31 December 2017
“GEM”	GEM operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Group”, “our Group”, “we” or “us”	our Company and our subsidiaries at the relevant time or, where the context otherwise requires, in respect of the period prior to our Company becoming the holding company of our present subsidiaries, our companies that are the present subsidiaries of our Company and/or their predecessors (as the case may be)
“HKAS(s)”	Hong Kong Accounting Standards
“HKEx”	the Hong Kong Exchanges and Clearing Limited
“HKFRS(s)”	Hong Kong Financial Reporting Standard(s) (including HKASs and Interpretations) issued by HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“HK\$”, “HKD”, “Hong Kong dollar(s)” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong”, “HKSAR” or “HK”	the Hong Kong Special Administrative Region of the PRC

[REDACTED]

“Hong Kong Prime Rate”	the prime lending rate as quoted by Bank A and Bank B from time to time
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are not connected with any Directors, chief executive or substantial Shareholders of our Company, our subsidiaries or any of their respective associates

[REDACTED]

[REDACTED]

DEFINITIONS

“Latest Practicable Date”	20 June 2018, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information in this document prior to its publication
“Licensed Representative(s)”	an individual who is granted a licence under section 120(1) or 121(1) of the SFO to carry on one or more than one regulated activity
	[REDACTED]
	[REDACTED]
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company conditionally adopted on 14 June 2018 (with effect from the [REDACTED]), a summary of which set out in Appendix IV to this document
“Mr. Chan”	Mr. Chan Ying Kit (陳英傑), our non-executive Director and the Chairman of our Company. He is one of our Controlling Shareholders. He is also the spouse of Ms. Kou and the father of Mr. Chan Pui Chuen
“Mr. Chan Pui Chuen”	Mr. Chan Pui Chuen (陳沛泉), our executive Director and one of our Controlling Shareholders. He is the son of Ms. Kou and Mr. Chan
“Mr. Chiu”	Mr. Chiu Che Leung Stephen (趙子良), our executive Director, chief operating officer of our Company and one of our Controlling Shareholders
“Mr. Ko Yuen Fai”	Mr. Ko Yuen Fai (高原輝), one of our Controlling Shareholders. He is also the brother of Mr. Ko Yuen Kwan, Mr. Ko Yuen San and Mr. Ko Yuen Sing and the son of Ms. Kwok Lo Ming
“Mr. Ko Yuen Kwan”	Mr. Ko Yuen Kwan (高原君), one of our Controlling Shareholders. He is also the brother of Mr. Ko Yuen Fai, Mr. Ko Yuen San and Mr. Ko Yuen Sing and the son of Ms. Kwok Lo Ming
“Mr. Ko Yuen San”	Mr. Ko Yuen San (高原新), one of our Controlling Shareholders. He is also the brother of Mr. Ko Yuen Fai, Mr. Ko Yuen Kwan and Mr. Ko Yuen Sing and the son of Ms. Kwok Lo Ming

DEFINITIONS

“Mr. Ko Yuen Sing”	Mr. Ko Yuen Sing (高原聲), one of our Controlling Shareholders. He is also the brother of Mr. Ko Yuen Fai, Mr. Ko Yuen Kwan and Mr. Ko Yuen San and the son of Ms. Kwok Lo Ming
“Mr. Sze Tung”	Mr. Sze Tung (施彤), one of our Controlling Shareholders and the director of asset management of Victory Securities (HK)
“Mr. Yeung Tak Kuen”	Mr. Yeung Tak Kuen, Andy (楊德權), one of our Controlling Shareholders
“Ms. Kou”	Ms. Kou Kuen (高鵬), our executive Director and chief executive officer of our Company. She is one of our Controlling Shareholders. She is the spouse of Mr. Chan, the mother of Mr. Chan Pui Chuen and the younger sister of Ms. Kou Luen. She is a cousin-in-law of Ms. Kwok Lo Ming
“Ms. Kou Luen”	Ms. Kou Luen (高鸞), one of our Controlling Shareholders. She is the elder sister of Ms. Kou. She is a cousin-in-law of Ms. Kwok Lo Ming
“Ms. Kwok Lo Ming”	Ms. Kwok Lo Ming (葛路明), one of our Controlling Shareholders. She is the mother of Mr. Ko Yuen Fai, Mr. Ko Yuen San, Mr. Ko Yuen Sing and Mr. Ko Yuen Kwan. She is a cousin-in-law of Ms. Kou and Ms. Kou Luen
“Ms. Meng Li”	Ms. Meng Li (孟力), one of our Controlling Shareholders

[REDACTED]

[REDACTED]

[REDACTED]

DEFINITIONS

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

“Predecessor Companies Ordinance”

the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before the commencement date of the Companies Ordinance

[REDACTED]

[REDACTED]

“document”

this document being issued in connection with the [REDACTED]

[REDACTED]

DEFINITIONS

[REDACTED]

[REDACTED]

[REDACTED]

“Pulsar” or “Sole Sponsor”	Pulsar Capital Limited, a licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities (as defined under the SFO), being the sole sponsor of the [REDACTED]
“Reorganisation”	the reorganisation to be carried out for the purpose of the implementation of the proposed [REDACTED] of our Company, details of which are set out in the section headed “History, Development and Reorganisation” in this document
“Responsible Officer(s)”	a Licensed Representative who is also approved as a responsible officer under section 126 of the SFO to supervise one or more than one regulated activity of the licensed corporation to which he/she is accredited
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shanghai Connect”	the securities trading and clearing linked program developed by the Stock Exchange, Shanghai Stock Exchange and China Securities Depository and Clearing Corporation, pursuant to the relevant Hong Kong and PRC regulations, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Shanghai Stock Exchange”	the Shanghai Stock Exchange (上海證券交易所)
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.01 each in the capital of our Company, which are to be traded in Hong Kong dollars and [REDACTED] on GEM [REDACTED]
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 14 June 2018, the principal terms of which are summarised in the paragraph headed “D. Share Option Scheme” in Appendix V to this document
“Shareholder(s)”	holder(s) of the Share(s)
“Shenzhen Connect”	the securities trading and clearing linked program developed by the Stock Exchange, Shenzhen Stock Exchange and China Securities Depository and Clearing Corporation, pursuant to the relevant Hong Kong and PRC regulations, as amended, supplemented or otherwise modified from time to time
“Shenzhen Stock Exchange”	the Shenzhen Stock Exchange (深圳證券交易所)
“Singapore”	the Republic of Singapore
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the GEM Listing Rules
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs as approved by the SFC and as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the period comprising the financial years ended 31 December 2016 and 2017 [REDACTED] [REDACTED]
“U.S.”, “US” or the “United States”	the United States of America
“US\$”, “USD” or “U.S. Dollar(s)”	United States dollars, the lawful currency of the United States

DEFINITIONS

“Victory (Nominees)”	Victory (Nominees) Limited (勝利(代理人)有限公司), a company incorporated in Hong Kong on 30 November 2009 with limited liability which is wholly-owned by Victory Securities (HK) and a member of our Group
“Victory Securities (BVI)”	Victory Securities Holding Ltd., a company incorporated in BVI on 4 September 2015 with limited liability which is wholly-owned by our Company and a member of our Group
“Victory Securities (HK)”	Victory Securities Company Limited (勝利證券有限公司), a company incorporated in Hong Kong on 14 January 1993 with limited liability and a licensed corporation under the SFO to engage in type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 9 (asset management) regulated activities (as defined under the SFO) which is wholly-owned by Victory Securities (BVI) and a member of our Group
“Victory VC Asset Management”	Victory VC Asset Management Company Limited (勝利資產管理有限公司), a company incorporated in Hong Kong on 19 August 2015 with limited liability which is wholly-owned by Victory Securities (HK) and a member of our Group

[REDACTED]

[REDACTED]

“%” per cent.

No information contained in our website forms part of this document.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this document in connection with our Company and our business. These terminologies and their given meanings may not correspond to those standard meanings and usage adopted in the industry.

“active account” or “active client” or “active margin client”	clients whose accounts recorded at least one trading activity, for purchase and/or sale of securities, broking transaction, in the past twelve months
“AMS” and “AMS/3.8”	Automatic Order Matching and Execution System, an electronic stock trading system of the Stock Exchange, the first generation of which was implemented in 1993 and is currently in its third generation
“Android”	an operating system developed and maintained by Google Inc., an Independent Third Party, and used in touchscreen technology including, smartphones and tablets
“AUM”	asset under management
“B shares”	foreign invested shares that are traded on the Shanghai Stock Exchange or Shenzhen Stock Exchange in U.S. dollars or Hong Kong dollars
“blue-chip”	listed securities that are constituent stocks of the Hang Seng Index
“BSS”	the Broker Supplied System, being a front office solution either developed in-house by the Stock Exchange Participant or a third-party software package acquired from commercial vendors, enabling the Stock Exchange Participant to connect its trading facilities to the Open Gateway to conduct trading
“China Connect Clearing Participant”	a CCASS Broker Participant or a CCASS Clearing Participant which is registered as a China Connect Clearing Participant by HKSCC
“China Connect Exchange Participant”	a Stock Exchange Participant which is registered as a China Connect Exchange Participant by the Stock Exchange
“Chinese wall”	theoretical barrier to ensure that non-public material information regarding listed companies which is obtained in one department is not released to another department. The Chinese wall aims to isolate those persons who make investment decisions from those who are privy to non-public material information which may influence those decisions
“Code of Conduct”	the Code of Conduct for Persons Licensed by or Registered with the SFC

GLOSSARY OF TECHNICAL TERMS

“FATCA”	the Foreign Account Tax Compliance Act
“FFI”	foreign financial institution
“high net worth client”	client with investment portfolio exceeding HK\$1 million
“Internet”	a global system of interconnected computer networks linked by numerous electronic and optical networking technologies for conveying information, resources and services
“IGA”	the intergovernmental agreement signed between Hong Kong and the U.S. for implementation of FATCA
“IPO”	initial public offering
“iOS”	a mobile operating system developed and maintained by Apple Inc., an Independent Third Party, and used exclusively in its mobile device products with touchscreen technology
“IRS”	the U.S. Internal Revenue Service
“ISO”	an acronym for a series of quality management and quality assurance standards published by International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
“ISO 9001”	ISO 9001 is an internationally recognised standard for a quality management system. It aims at the effectiveness of the quality management system in meeting client requirements. It prescribes requirements for ongoing improvement of quality assurance
“Open Gateway”	a Windows-based device provided by the Stock Exchange and installed at the Stock Exchange Participants’ office to facilitate electronic interface of the AMS/3.8 with front office systems operated by the Stock Exchange Participant
“Stock Exchange Participants”	corporation(s) licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO who, in accordance with the rules of the Stock Exchange, may trade on or through the Stock Exchange and whose name(s) is/are entered in a list, register or roll kept by the Stock Exchange as person(s) who may trade on or through the Stock Exchange
“Stock Exchange Trading Right”	a right to be eligible to trade on or through the Stock Exchange as an Exchange Participant and entered as such a right in a list, register or roll kept by the Stock Exchange
“T+2”	two trading days from the relevant transaction day

FORWARD-LOOKING STATEMENTS

We have included in this document forward-looking statements. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements.

This document contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and plans of operation;
- our capital expenditure plans;
- the amount and nature of, and potential for, future development of our business;
- our operations and business prospects;
- our dividend policy;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices;
- the regulatory environment of the industry in which our Group is operating;
- future developments, trends and conditions in the industry in which our Group is operating;
- capital market developments;
- actions and developments of competitors of our Group; and
- other statements in this document that are not historical facts.

The words “anticipate”, “believe”, “could”, “expect”, “intend”, “may”, “plan”, “seek”, “will”, “would” and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this document. One or more of these risks or uncertainties may materialise, or underlying assumptions may prove incorrect.

Subject to the requirements of the GEM Listing Rules, we do not intend to publicly update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this document are qualified by reference to this cautionary statement.

RISK FACTORS

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

RISKS RELATING TO THE BUSINESS AND OPERATIONS OF OUR GROUP

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

Our business is dependent on the performance of the local and global financial markets. The Hong Kong financial markets are directly affected by adverse changes in general economic or financial conditions of the global financial markets such as changes in investors’ sentiment, perception and confidence in the financial markets, inflation expectation, market volatility, fluctuations in trading volume or funding availability, which would materially and adversely affect our securities broking services, financing services and asset management services. There is no assurance that the local or global financial market conditions would not change suddenly or dramatically, which are beyond our control, and may lead to a prolonged period of sluggish market activities which would in turn have a material and adverse impact on our business and operating performance. Benefitting from the launch of the Shenzhen Connect, China’s economy recovery and bullish market sentiment, the total turnover of Hong Kong securities market increased significantly from HK\$16,396 billion in the year ended 31 December 2016 to HK\$21,709 billion in the year ended 31 December 2017, during which the Hang Seng Index has experienced a surge from 22,001 in January 2017 to 29,919 in December 2017, hitting its highest of 30,200 in November 2017 and lowest of 21,884 in January 2017 for the year. After that the Hang Seng Index hit a record high of 33,484 in January 2018 before sliding to a seven-week low of 29,129 in February 2018, and then the Hang Seng Index ended at 30,093 in the first quarter of 2018. For further information, please refer the section headed “Industry Overview” in this document. Accordingly, market volatility resulted in depressed securities trading and finance related activities during the quarter which might have an adverse impact on our business and operating performance.

Our revenue is highly dependent on the activeness of the securities market in Hong Kong. With the unstable and unpredictable market conditions, our financial performance may be volatile. Notwithstanding we recorded an increase of HK\$26.2 million in our total revenue, or 86.6%, from HK\$30.2 million for the year ended 31 December 2016 to HK\$56.4 million for the year ended 31 December 2017, our financial performance for the year ending 31 December 2018 will probably still be dependent on the sentiments of the Hong Kong securities market in 2018.

Recent developments in the United States under its new leadership, the impact of the contemplated exit of the United Kingdom from the European Union and the recent escalation of the trade dispute between the United States and the PRC have further intensified uncertainties in the global economy. In addition, changes in social, political, regulatory and economic conditions, laws and policies regulating development and investment in financial markets such as the PRC and the United States may adversely affect the stability of the global financial markets as a whole,

RISK FACTORS

significantly reduce global market liquidity and restrict the ability of market participants to operate in certain financial markets. Any of these factors could depress economic activities. Unfavourable or uncertain economic and market conditions could adversely affect investor confidence and in turn result in decline in securities trading and finance related activities, which may materially and adversely affect the revenue from our business activities.

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

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

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

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

Our business operations were carried out in Hong Kong during the Track Record Period. The results of operations and prospects are highly susceptible to any development of change in government policies, as well as economic, social, political and legal development in Hong Kong. Events with adverse impact on investors’ confidence and risk appetites, such as riots or mass civil disobedience movements and general deterioration of local economy, may lead to a reduction in investment or trading activities and in turn our business performance. Any change in the local economic, social and political environment, which is beyond our control, may lead to prolonged period of sluggish market activities which would in turn have material adverse impact on our business.

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

The Hong Kong financial services industry is highly regulated. We are subject to different laws, rules, regulations, codes and guidelines, including but not limited to, the SFO, the Companies Ordinance, the FRR, the GEM Listing Rules, the Stock Exchange Trading Rules and Takeovers Code.

RISK FACTORS

In addition, as Victory Securities (HK) is a licensed corporation under the SFO we must ensure continuous compliance with all applicable laws, rules, regulations, codes and guidelines, as well as satisfy the SFC, the Stock Exchange and / or other regulatory authorities that we remain fit and proper to be licensed. The SFC conducts on-site reviews and off-site monitoring to ascertain and supervise intermediaries’ business conduct and compliance with relevant regulatory requirements and to assess and monitor the financial soundness of intermediaries. We may be subject to such regulatory reviews and investigations from time to time.

If serious misconducts are revealed as a result of the reviews and / or investigations, the SFC may take disciplinary actions which would lead to revocation or suspension of licences, public or private reprimand or imposition of pecuniary penalties against us, our Responsible Officers or Licensed Representatives. Any such disciplinary actions taken against us, our Directors, Responsible Officers or Licensed Representatives may have a material and adverse impact on our business operations and financial results. In addition, we may be subject to statutory secrecy obligations under the SFO from time to time whereby we are not permitted to disclose details before the SFC reviews or investigation end.

We had been subject to certain non-compliances, disciplinary and inspection actions by the SFC in the past. In particular, the SFC conducted limited scope reviews in or around September 2005, February 2007, December 2012 and December 2017, during which the SFC identified deficiencies, which required certain rectification measures. In the SFC’s limited scope review in December 2017, the SFC identified weaknesses of Victory Securities (HK)’s internal control in the areas of (1) safeguard of client assets, (2) segregation of duties, (3) information on statements of accounts, (4) third party operated accounts, (5) discretionary accounts arrangement, (6) asset management accounts, (7) credit controls, (8) staff dealing, and (9) anti-money laundering and counter-terrorist financing. In all these areas, the SFC requested Victory Securities (HK) to take rectification measures and strengthen its internal control procedures.

The SFC conducts regular limited scope reviews on the operation of licensed corporations from time to time to promote a high regulatory standard for the securities industry in Hong Kong, and for the SFC’s effective supervision over the intermediaries. There is no assurance that during the future reviews, the SFC will not reveal material deficiencies, non-compliances or internal control weaknesses across Victory Securities (HK)’s business, or will satisfy with Victory Securities (HK)’s rectification measures to address the SFC’s concerns. In the event that the SFC considers Victory Securities (HK)’s internal control procedures inadequate or ineffective, it may lead to Victory Securities (HK)’s licences being revoked or suspended, or even the SFC may initiate disciplinary actions against Victory Securities (HK). For details of the above non-compliance, disciplinary and inspection actions, please refer to the paragraph headed “Business — Non-compliance, disciplinary and inspection actions” in this document. Any repeat in historical non-compliances, disciplinary and inspection actions would have a material adverse impact on our operations.

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

RISK FACTORS

Risk associated with brokerage services

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

Commission and brokerage income mainly depends upon the trading volume through our trading system (including our online trading platform). Similar to other broking and financial services firms, trading volume by investors in the stock markets as a whole may continue to be affected by factors such as changes in investors’ sentiment, perception and confidence in the financial markets, inflation expectation, market conditions, political conditions, natural disasters, riots and acts of war or terrorism.

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

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

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

During the course of providing securities broking services, we rely upon our ability to process and monitor larger number of transactions, which involves complicated operational procedures and requires stable performance of our trading system. There is no assurance that we will not experience any trading errors such as errors made on taking client instruction, including but not limited to incorrect input of security name, quantity of the transaction or incorrect buy / sell order or incorrect input of client instruction or client account number. Any loss we suffered resulting from any of the aforesaid trading errors made by our licensed employees or self-employed account executives may not be indemnified by the responsible person and we may have to bear the losses resulting from those trading errors. Hence, in the event that the trading errors are not effectively prevented or controlled, or rectification measures could not cover the loss incurred, our financial results would be materially and adversely affected.

RISK FACTORS

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

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

Our trading, financial, accounting, data processing or other operating systems and facilities may also fail to operate properly or become disabled as a result of events which are beyond our control, events such as human error, natural disasters, power failures, computer viruses, cyber-attacks, spam attacks, unauthorised access and data loss or leakage. We also face the risk of operational failure or termination of any of the external brokers or other financial intermediaries that we use to facilitate securities transactions. Any operational failure or termination of the external brokers or other financial intermediaries that we use could adversely affect our ability to execute transactions, service our clients and manage our exposure to risk, which could lead to a material adverse effect on our business, results of operations and prospects.

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

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

Should the external brokers fail to comply with the terms of our contracts with them or any regulatory requirements, they might fail to handle instructions from our clients in a timely manner or at all. Upon any failure by our existing external brokers to discharge their obligations, we may not be able to find other suitable companies as replacements on a timely basis. We may not be able to provide

RISK FACTORS

access to those external securities trading platforms continuously and / or at the same fee charge level to our clients. Or our clients may cease to conduct their overseas securities trading through us. Upon the occurrence of any of the above, our business, financial performance and operations may thereby be materially and adversely affected.

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

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

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

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

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

In the event that a client is unable to meet a margin call, we are entitled to dispose of the collateral and apply the sale proceeds toward repayment of the outstanding balance use the sale proceeds thereof towards repayment of the margin loan. There is no assurance that the value of the collateral and that the proceeds generated from the disposal of the collateral are sufficient to cover all

RISK FACTORS

outstanding balances or that they may be disposed of in a timely manner or at all in the case where the collateral has been suspended from trading at a time when the margin call is made. We would suffer a loss if we fail to recover the shortfall from our clients. Our business and financial performance will be materially and adversely affected if our clients fail to cover the shortfalls.

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

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

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

We generate interest income from our financing services. During the Track Record Period, the interest rates charged by us were determined with reference to, among others, the prevailing market rate (i.e. Hong Kong Prime Rate). Interest income is directly linked to the prevailing market interest rates and during periods of rising interest rates, our interest income from clients under the financing segment would increase. There is no assurance that the Hong Kong Prime Rate will not change dramatically for reasons beyond our control, as a result of which our interest income may fluctuate from time to time. If our source of funding changes or if interest rates charged by our lenders (i.e. Hong Kong Inter-Bank Offered Rate (“HIBOR”) increase significantly against the Hong Kong Prime Rate, our interest expenses may increase and our return on interest income may decrease, as a result of which our business and results of operations may be materially and adversely affected.

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

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

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

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\$6.5 million each, which are expected to expire on 18 August 2018 and 31 October 2018, respectively. For details regarding our “loss protection” discretionary accounts, please refer to the paragraphs headed “Business — Our business model — (iii) Asset management services” and “Financial Information — Description and comparison of principal items in the consolidated statements of profit or loss — Other operating expenses” in this document.

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

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

We rely substantially on clients who are applicants of the CIES of Hong Kong. Also, the majority of our asset management clients are CIES applicants. Under the CIES, applicants who 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. There is no assurance that our CIES applicant clients will maintain their assets with us or continue to trade through us after the seven years requirement expires. CIES applicants may withdraw their capital commitment from one asset management firm and move it to another asset management firm under the rules of the CIES.

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

There is no assurance that we are able to secure new engagements for our asset management services at levels similar to those we had during the Track Record Period when the government of Hong Kong was still accepting new applications for the scheme, and there is also no assurance that the engagements we successfully secure can be completed. In addition, increasing competition from other securities firms, banks, insurance companies and other competitors could prevent us from

RISK FACTORS

maintaining or increasing our client base. If we fail to engage with new clients, we may not be able to take advantage of potential benefits, such as economies of scale and investment strategies with larger capital requirements, or we may have to reduce our brokerage commission rate to attract new clients, and our results of operations and prospects would be materially and adversely affected.

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

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

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

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

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

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

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

RISK FACTORS

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

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

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

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

Securities broking services revenue represented our largest income source during the Track Record Period, which in total accounted for HK\$23.8 million and HK\$46.9 million for the years 2016 and 2017. We paid brokerage commission of HK\$1.5 million and HK\$1.5 million to self-employed account executives, which accounted for 39.8% and 21.8% of our total commission expenses during the Track Record Period, respectively. As at 31 December 2016 and 2017, we had 25 and 31 account executives, respectively. If we fail to maintain our arrangement with those self-employed account executives, or if material part of the existing self-employed account executives have ceased cooperation with us, our financial result would be materially and adversely affected. For details regarding our cooperation with those self-employed account executives, please refer to the paragraph headed “Business — Our business model — (i) Securities broking services — (a) Brokerage services” in this document.

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

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

RISK FACTORS

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

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

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

Our revenue and profitability are difficult to predict

Our revenue is mainly generated on a transaction-by-transaction basis. Furthermore, our revenue is also subject to the size of transactions and the scope of services being rendered. Given the nature of our business, our revenue and profitability are difficult to predict. Therefore, our future financial results may be subject to fluctuations depending on our success in entering into new transactions. There is no assurance that we will be able to attain transaction volume at a level similar to those during the Track Record Period, and that the transaction we procure will be completed due to the market conditions and circumstances of each transaction.

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

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

Our proprietary trading activities will be subject to market volatility, and as such, the profitability of these investments will generally correlate with the performance of the Hong Kong, the PRC and overseas securities markets. We cannot assure you that our proprietary trading business will be profitable in the future. Further, the value of our financial assets is marked to market. Unrealised losses will be recognised if the carrying value of the financial assets is lower than their market value, which will have a negative impact on our results of operations. If we recognise such unrealised losses, our results of operations could be materially and adversely affected.

RISK FACTORS

The performance of our proprietary trading activities primarily depends on our investment decisions and judgment, which are subject to management discretion and assumptions. For information on our policy and procedures governing our proprietary trading activities, please refer to the paragraph headed “Business — Risk management and internal control — Risk management relating to our financing business” in this document. For investments in financial products, if we fail to evaluate investment products properly or our forecasts of the market do not conform to actual changes in market conditions, our proprietary trading may not achieve the investment returns we anticipated or may even suffer material losses. Such losses could materially and adversely affect our business, financial conditions and results of operations.

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

As at 31 December 2016 and 2017, our total indebtedness amounted to HK\$57.0 million and HK\$47.5 million, respectively. Such amount represents the amount we have drawn under the banking facilities of HK\$196.5 million and HK\$190.0 million as at 31 December 2016 and 2017, respectively, made available to us. Please refer to the paragraph headed “Financial Information — Indebtedness” in this document for details. Our financial conditions, liquidity and business operations could be adversely affected to the extent we are unable to repay our debt in a timely manner. Even if we are able to meet our debt service obligations, our level of indebtedness could adversely affect us in a number of ways, including the following:

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

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

We face significant legal risks in our business, and the volume and amount of claims in litigation and regulatory proceedings against licensed corporations could be high. These risks include potential liabilities under securities or other laws for material false or misleading statements made in connection with securities or other transactions, potential liabilities for the advice provided to clients in corporate transactions and possible disputes over the terms and conditions of trading arrangements.

RISK FACTORS

We may also be subject to claims for alleged negligent conduct, breach of fiduciary duty or breach of contract. These risks often may be difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time. We may be a party to legal proceedings arising from the ordinary course of our business.

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

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

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

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

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

As we expand the scope of our business and our client base, it is critical for us to be able to address potential conflicts of interest, including situations where two or more interests within our business legitimately exist but are in competition or conflict. We may encounter conflicts of interest arising among (i) our various business units, (ii) our clients and us, (iii) our various clients, (iv) our

RISK FACTORS

employees or self-employed account executives and us or (v) our clients and our employees or self-employed account executives. Please refer to the paragraph headed “Business — Risk management and internal control — Conflict of interest” in this document for details of our internal policy regarding conflicts of interest.

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

We may not be able to implement our future plans successfully

Our future business plans are based on our Directors’ existing intentions. These business plans and intentions are based on assumptions as to the occurrence of certain future events, which may or may not materialise, and the real situation might differ materially. Furthermore, our future business plans may be hindered by other factors beyond our control, such as competition within the financial services industry and from other securities brokers. Therefore, there is no assurance that any of our future business plans will materialise, or result in the conclusion or execution of any agreement within the planned time frame, or that our objectives will be fully or partially accomplished. For details of our future plans, please refer to the paragraph headed “Business — Business strategies” in this document.

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

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

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

RISK FACTORS

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

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

Our business and future success, to a large extent, are attributable to the continued commitment of our executive Directors, Responsible Officers and senior management team, and in particular, Ms. Kou and Mr. Chiu. There is no assurance that these key executives or personnel will not voluntarily terminate their employment with us. The loss of any of our key executives, Responsible Officers or personnel could be detrimental to the ongoing success of our operations. Our continued success will also depend on our ability to attract and retain qualified personnel in order to manage our existing operations as well as our future growth. We may not be able to successfully attract, assimilate or retain the personnel we need and this could negatively impact on our ability to expand our business effectively.

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

We may fail to effectively implement the offer of new services

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

RISK FACTORS

Further, these business activities would expose us to new risks, including credit risk, market risk and counter-party risk, or when dealing with less sophisticated counterparties and investors or dealing in a new market, greater regulatory scrutiny and increased credit and operational and market risks. If we fail to implement sufficient controls to manage such risks, it may lead to disciplinary actions being taken against us, our Directors, Responsible Officers or Licensed Representatives which may have an adverse impact on our business operations and financial results.

RISKS RELATING TO OUR INDUSTRY

Licensed corporations are required to maintain a high level of liquidity

Pursuant to the FRR, a licensed corporation shall maintain liquid capital which is not less than the required level at all times. Victory Securities (HK) is required to maintain liquid capital of the higher of HK\$3.0 million and the basic amount, which in relation to a licensed corporation means 5% of the aggregate of (a) its adjusted liabilities (as defined in the FRR); and (b) the aggregate of the initial margin requirements in respect of outstanding futures contracts and outstanding options contracts held by it on behalf of its clients; and (c) the aggregate of the amounts of margin required to be deposited in respect of outstanding futures contracts and outstanding options contracts held by it on behalf of its clients, to the extent that such contracts are not subject to payment of initial margin requirement. We must maintain a high level of liquidity at all times to comply with the FRR. Failure to meet the above requirement may cause the SFC to take appropriate action against us, which may adversely affect our operations and performance. During the Track Record Period, there had been no failure to comply with the FRR requirements.

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

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

Changes in tax laws and regulations may adversely affect our business

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

RISK FACTORS

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

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

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

RISK RELATING TO THE [REDACTED] AND THE SHARES

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

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

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

RISK FACTORS

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

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

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

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

Our Shares have not been traded in an open market before completion of the [REDACTED]. The [REDACTED] may not serve as an indicator of the price of our Shares traded in GEM in the future. The [REDACTED] is the result of negotiation between us and the [REDACTED] (for themselves and on behalf of the [REDACTED]), and may be different from the market prices for our Shares after the [REDACTED]. There is no assurance that an active and liquid public trading market of our Shares will develop upon the [REDACTED] or if it does develop, that it may be sustained for any period of time after the [REDACTED]. The market price and trading volume of our Shares may fluctuate significantly and rapidly as a result of the following factors, among other things, some of which are beyond our control:

- variation in our results of operation;
- changes in securities analysts’ analysis of our financial performance;
- our announcement of significant acquisitions, dispositions, strategic alliances or joint ventures;
- addition or departure of our key personnel;

RISK FACTORS

- fluctuations in market prices and trading volume of our Shares;
- our involvement in litigation;
- development of GEM;
- general economic and stock market conditions in Hong Kong.

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

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

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

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

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

RISK FACTORS

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

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

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

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

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

RISK FACTORS

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

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

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

WAIVERS FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES

In preparation for the [REDACTED], we have sought the following waivers from strict compliance with the relevant provisions of the GEM Listing Rules:

JOINT COMPANY SECRETARIES

Rule 11.07(2) of the GEM Listing Rules provides that an issuer must appoint a company secretary who satisfies Rule 5.14 of the GEM Listing Rules. Rule 5.14 provides that an issuer must appoint as its company secretary an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary.

We have appointed Mr. Chan Pui Chuen and Mr. Wong Wai Chiu (黃偉超) (“**Mr. Wong**”) as joint company secretaries to jointly discharge the duties and responsibilities as our joint company secretaries with reference to their past experience, qualifications and working experience.

Mr. Chan Pui Chuen was approved by the SFC to be the Licensed Representative of Victory Securities (HK) for Type 1 regulated activity on 24 July 2013 and he has been employed by Victory Securities (HK) on a full-time basis since then. He was promoted as a senior compliance manager of Victory Securities (HK) from March 2015. Mr. Chan Pui Chuen has been responsible for compliance matters of Victory Securities (HK) since then. He was appointed as our Director on 5 September 2017 and was designated as an executive Director on 11 September 2017. He is responsible for overseeing compliance, internal control and risk management. We believe that having regard to Mr. Chan Pui Chuen’s past working experience with us, he has a thorough understanding of our operations and is able to perform his duties as the company secretary. Please refer to the section headed “Directors, Senior Management and Staff” in this document for further details of Mr. Chan Pui Chuen’s background.

However, Mr. Chan Pui Chuen does not possess full qualifications as required under Rule 5.14 of the GEM Listing Rules. As such, we have appointed Mr. Wong as one of our joint company secretaries and to provide joint company secretary support and assistance to Mr. Chan Pui Chuen to enable Mr. Chan Pui Chuen to acquire the relevant experience as required under Rule 5.14 of the GEM Listing Rules and to duly discharge the functions of a company secretary. Mr. Chan Pui Chuen will be assisted and will enjoy the resources and expertise of Mr. Wong as a joint company secretary.

Mr. Wong, being a fellow member of The Hong Kong Institute of Chartered Secretaries and a fellow member of The Institute of Chartered Secretaries and Administrators in the United Kingdom, satisfies the requirements under Rules 5.14 and 11.07(2) of the GEM Listing Rules. Further biographical details of Mr. Wong are set out in the section headed “Directors, Senior Management and Staff” in this document.

WAIVERS FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES

Therefore, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of Rules 5.14 and 11.07(2) of the GEM Listing Rules and the following arrangements have been made to satisfy those requirements:

- (a) we will continue to engage Mr. Wong as a joint company secretary for a minimum period of three years commencing from the [REDACTED]. We believe that Mr. Chan Pui Chuen will acquire the relevant qualifications or experience required under Rules 5.14 and 11.07(2) of the GEM Listing Rules to act as our secretary with the guidance and assistance of Mr. Wong. During his engagement period, Mr. Wong will work closely with Mr. Chan Pui Chuen and ensure that he will be available at all times to provide assistance to Mr. Chan Pui Chuen for discharging his duty as a company secretary, including but not limited to communicating regularly with Mr. Chan Pui Chuen on matters relating to corporate governance, the GEM Listing Rules, as well as the applicable Hong Kong laws and regulations which are relevant to us. We will further ensure that Mr. Chan Pui Chuen will receive the relevant trainings and support to enable him to be familiar with the GEM Listing Rules and the responsibilities of a company secretary as required under the GEM Listing Rules;
- (b) pursuant to Rule 5.15 of the GEM Listing Rules, each of Mr. Wong and Mr. Chan Pui Chuen will attend in each financial year no less than 15 hours of relevant professional training courses to familiarise themselves with the requirements of the GEM Listing Rules and other Hong Kong regulatory requirements;
- (c) we will also appoint Pulsar as compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules, which will act as our additional channel of communication with the Stock Exchange, and provide professional guidance and advice to us and our joint company secretaries as to compliance with the GEM Listing Rules and all other applicable laws and regulations;
- (d) before expiry of the three-year period, we will re-evaluate Mr. Chan Pui Chuen's experience in order to determine whether he satisfies the requirements as stipulated under Rules 5.14 and 11.07(2) of the GEM Listing Rules;
- (e) if Mr. Wong ceases to provide assistance to Mr. Chan Pui Chuen, the waiver will be revoked by the Stock Exchange with immediate effect; and
- (f) before the end of the three-year period as mentioned above, the Stock Exchange will revisit the situation. We shall then demonstrate to the Stock Exchange's satisfaction that Mr. Chan Pui Chuen, having had the benefit of the assistance of Mr. Wong for three years, would have acquired the relevant experience within the meaning of Rule 5.14 of the GEM Listing Rules so that a further waiver would not be necessary.

WAIVERS FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We have entered into certain transactions with our connected persons that are expected to continue after the [REDACTED], which will constitute non-exempt continuing connected transactions under the GEM Listing Rules upon the [REDACTED]. We have applied to the Stock Exchange for, and the Stock Exchange has granted, waivers from the strict compliance with the announcement and (where applicable) independent shareholders’ approval requirements in respect of such non-exempt continuing connected transactions under Chapter 20 of the GEM Listing Rules. The details of such waivers are set out in the section headed “Connected Transactions” in this document.

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Ms. Kou Kuen (高鵬)	Flat B, 31/F., Block 5, Tierra Verde, Tsing Yi, New Territories, Hong Kong	Chinese
Mr. Chiu Che Leung, Stephen (趙子良)	Flat A, 14/F., Arran Court, 2 Shek Ku Street, Homantin, Kowloon, Hong Kong	Chinese
Mr. Chan Pui Chuen (陳沛泉)	Flat B, 31/F., Block 5, Tierra Verde, Tsing Yi, New Territories, Hong Kong	Chinese
<i>Non-executive Director</i>		
Mr. Chan Ying Kit (陳英傑)	Flat B, 31/F., Block 5, Tierra Verde, Tsing Yi, New Territories, Hong Kong	Chinese
<i>Independent non-executive Directors</i>		
Mr. Leung Kwong Kin (梁光建)	Flat B, 2/F., Block 5, Braemar Hill Mansions, 23 Braemar Hill Road, Hong Kong	Chinese
Mr. Liu Chun Ning Wilfred (廖俊寧)	7/F., Glory Mansion, 108 MacDonnell Road, Hong Kong	Chinese
Dr. Yan Ka Shing (甄嘉勝)	Room 815, 2 Caine Road, Mid-levels, Hong Kong	Chinese

For the biographies of our Directors, please refer to the section headed “Directors, Senior Management and Staff” in this document.

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

PARTIES INVOLVED

Sole Sponsor

Pulsar Capital Limited

Unit 318, 3/F.,
Shui On Centre,
6-8 Harbour Road,
Wanchai,
Hong Kong

(a licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities)

[REDACTED]

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

[REDACTED]

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

Legal advisers to our Company

As to Hong Kong law:

Hastings & Co.

5/F., Gloucester Tower,
The Landmark,
11 Pedder Street,
Central,
Hong Kong

As to Cayman Islands law:

Harney Westwood & Riegels

3501, The Centre,
99 Queen's Road Central,
Central,
Hong Kong

**Legal advisers to the Sole
Sponsor and the
[REDACTED]**

As to Hong Kong law:

Li & Partners

22/F., World-Wide House,
19 Des Voeux Road Central,
Central,
Hong Kong

**Reporting accountants and
auditor after [REDACTED]**

Ernst & Young

Certified Public Accountants

22/F., CITIC Tower,
1 Tim Mei Avenue,
Central,
Hong Kong

Property valuer

C S Surveyors Limited

1/F., Kimley Commercial Building,
142-146 Queens' Road Central,
Central,
Hong Kong

[REDACTED]

[REDACTED]

CORPORATE INFORMATION

Registered Office	4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman, KY1-1002, Cayman Islands
Head office and principal place of business in Hong Kong registered under Part 16 of the Companies Ordinance	Room 1101-3, 11th Floor, Yardley Commercial Building, 3 Connaught Road West, Hong Kong
Company's website	https://www.victorysec.com.hk
Joint company secretaries	Mr. Wong Wai Chiu (<i>ACIS, ACS</i>) (<i>a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom</i>) 18/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong Mr. Chan Pui Chuen Flat B, 31/F., Block 5, Tierra Verde, Tsing Yi, New Territories, Hong Kong
Authorised representatives (for the purpose of the GEM Listing Rules)	Ms. Kou Kuen Flat B, 31/F., Block 5, Tierra Verde, Tsing Yi, New Territories, Hong Kong Mr. Chiu Che Leung Stephen Flat A, 14/F., Arran Court, 2 Shek Ku Street, Homantin, Kowloon, Hong Kong
Compliance officer	Mr. Chiu Che Leung Stephen Flat A, 14/F., Arran Court, 2 Shek Ku Street, Homantin, Kowloon, Hong Kong

CORPORATE INFORMATION

Audit committee Mr. Leung Kwong Kin (*Chairman*)
Mr. Chan Ying Kit
Dr. Yan Ka Shing

Remuneration committee Mr. Leung Kwong Kin (*Chairman*)
Dr. Yan Ka Shing
Ms. Kou Kuen

Nomination committee Dr. Yan Ka Shing (*Chairman*)
Mr. Leung Kwong Kin
Mr. Chan Pui Chuen

Compliance adviser Pulsar Capital Limited
Unit 318, 3/F.,
Shui On Centre,
6-8 Harbour Road,
Wanchai, Hong Kong

[REDACTED]

[REDACTED]

Principal banker Chong Hing Bank Limited
6th Floor, Chong Hing Bank Centre,
24 Des Voeux Road Central,
Hong Kong

INDUSTRY OVERVIEW

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OVERVIEW OF THE HONG KONG SECURITIES MARKET

History of the Hong Kong securities market

Formed by the unification of the Hong Kong Stock Exchange, the Far East Exchange Limited, the Kam Ngan Stock Exchange Limited and the Kowloon Stock Exchange Limited, the Stock Exchange of Hong Kong Limited was officially opened on 2 April 1986. Following the market crash in October 1987, the SFC was established to provide investors with a stable, orderly and fair market through regulation in 1989. The central clearing system and the automated order matching and execution system were introduced in 1992 and 1993 respectively so as to improve the trading facilities in the Hong Kong securities market. On 6 March 2000, the Hong Kong Exchanges and Clearing Limited was formed by the merger of the Stock Exchange, the Futures Exchange and the HKSCC under a single holding company. Its shares were listed by way of introduction on the Stock Exchange on 27 June 2000 and it became one of the world’s first listed stock exchanges.

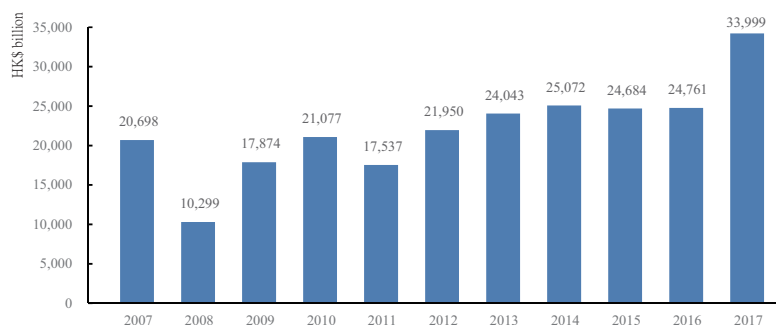
As the first stage of the mutual market access with other markets in the world, the Shanghai Connect was officially launched on 17 November 2014. On 21 October 2015, Hong Kong Futures Exchange Limited, HKFE Clearing Corporation Limited, the London Metal Exchange (“LME”) and the London Metal Exchange Clearing House (“LME Clear”) signed a memorandum of cooperation, with an aim to establish a trading connection between HKFE and LME and a settlement connection between HKFE Clearing Corporation and LME Clear (collectively referred to as “London-Hong Kong Connect”). On 5 December 2016, the Shenzhen Connect was launched to further promote two-way access to capital market after the Shanghai Connect. On 3 July 2017, the Bond Connect was officially launched to bring a major breakthrough for the bond market development in the PRC.

Total market capitalisation and the number of Hong Kong listed companies

As at 31 December 2017, the total market capitalisation of Hong Kong listed companies (including Main Board and GEM) was HK\$33,998.8 billion. The total market capitalisation of Hong Kong listed companies rose from HK\$20,697.5 billion in 2007 to HK\$33,998.8 billion in 2017, representing a CAGR of 5.1% over the last decade. According to the World Federation of Exchanges and SFC, the HKEx had a market capitalisation of USD4,350.5 billion as at 31 December 2017 and ranked seventh among the world’s top stock exchanges.

INDUSTRY OVERVIEW

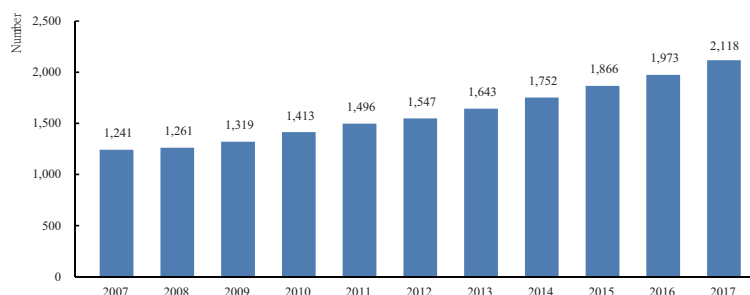
Total market capitalisation of Hong Kong listed companies from 2007 to 2017



Source: HKEx Fact Book (2007-2017)

As at 31 December 2017, the number of Hong Kong listed companies (including the Main Board and GEM) was 2,118. The number of Hong Kong listed companies increased from 1,241 in 2007 to 2,118 in 2017, representing a CAGR of 5.5% over the last decade.

Number of listed companies on the Main Board and GEM from 2007 to 2017

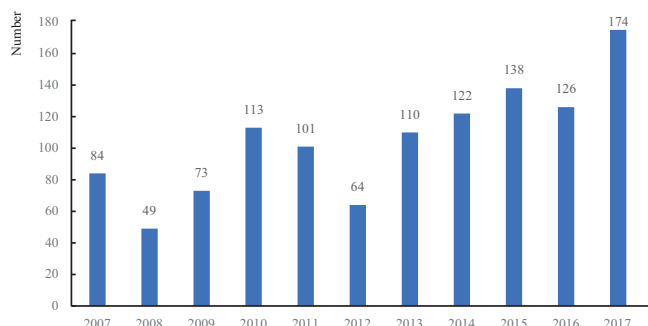


Source: HKEx Fact Book (2007-2017)

IPO

Since 2013, the number of IPOs on the Stock Exchange of Hong Kong has consistently been over 100 per annum, reflecting the attractiveness of Hong Kong as an international financial hub. According to Market Statistics 2017 from HKEx, Hong Kong ranked third in the world's IPO markets in terms of funds raised (on a provisional basis) in 2017.

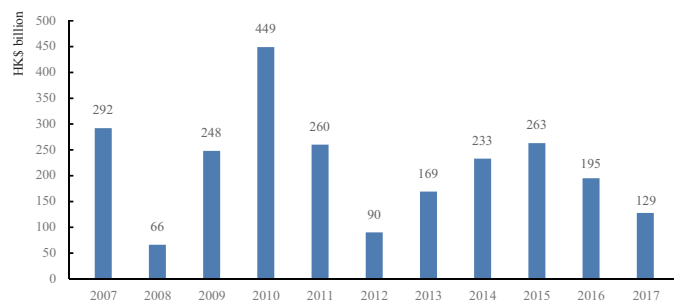
Number of IPOs in Hong Kong from 2007 to 2017



Source: HKEx Fact Book (2007-2017), including transfer of listing from GEM to Main Board

INDUSTRY OVERVIEW

Total funds raised through IPO in Hong Kong from 2007 to 2017

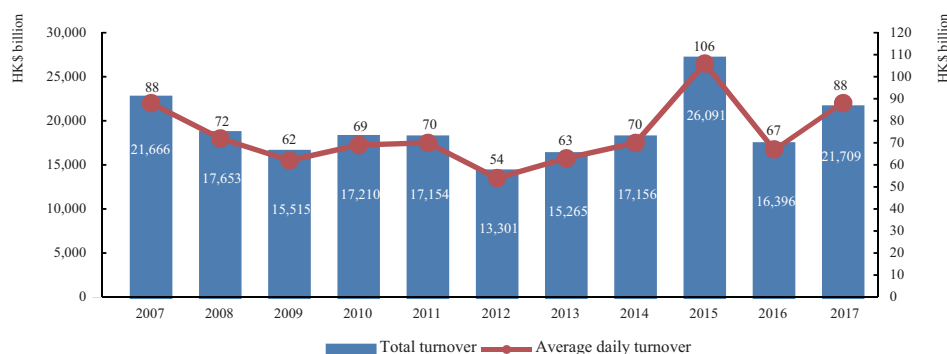


Source: HKEx Fact Book (2007-2017)

Secondary market

Affected by the adverse impact of the global financial tsunami that broke out in 2008, the turnover of Hong Kong securities market dropped significantly from HK\$21,666 billion in 2007 to HK\$15,515 billion in 2009. The turnover of Hong Kong securities market gradually recovered in the next two years until the European debt crisis aggravated by the end of 2011, which led to a weak securities market in 2012. Total turnover for 2012 was HK\$13,301 billion, representing a decrease of 22.5% from HK\$17,154 billion in 2011. Following the introduction of the Shanghai Connect on 17 November 2014, the turnover of the Hong Kong stock market topped at HK\$26,091 billion in 2015 and dropped sharply to HK\$16,396 billion in 2016 due to the downward adjustment of the China A-Share index in mid-2015. Benefitting from the launch of the Shenzhen Connect, China’s economy recovery and bullish market sentiment, the total turnover reached HK\$21,709 billion in the year ended 31 December 2017, during which the Hang Seng Index experienced a surge from 22,001 in January 2017 to 29,919 in December 2017, hitting its highest of 30,200 in November 2017 and lowest of 21,884 in January 2017 for the year. After that the Hang Seng Index hit a record high of 33,484 in January 2018 before sliding to a seven-week low of 29,129 in February 2018, and then the Hang Seng Index ended at 30,093 in the first quarter of 2018.

Total turnover and average daily turnover from 2007 to 2017 of Hong Kong Securities Market



Source: HKEx Fact Book (2007-2017)

Exchange participants

To trade securities through the trading facilities of HKEx, participants must (among others) hold the Stock Exchange Trading Rights and should also be licensed corporations which can carry on Type 1 (dealing in securities) regulated activity under the SFO. They should also comply with the financial resources rules stipulated by the Financial Resources Rules (amendments) and HKEx.

INDUSTRY OVERVIEW

As at 31 December 2017, 669 Stock Exchange Trading Rights holders were registered with HKEx, including 622 trading Exchange Participants, 32 non-trading-Stock Exchange Participants and 15 non-Stock Exchange Participants. As at 31 December 2016, 608 Stock Exchange Trading Rights holders were registered with HKEx, including 556 trading Exchange Participants, 36 non-trading-Stock Exchange Participants and 16 non-Stock Exchange Participants.

Market participants are divided into 3 categories based on market share by the Stock Exchange:

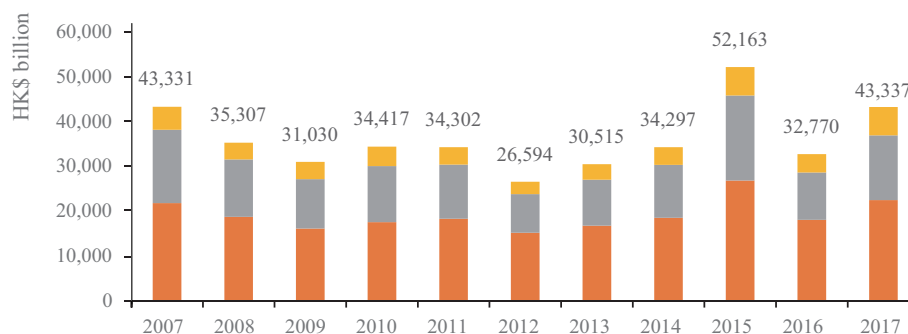
- (a) Category A (brokerage firms ranking 1st to 14th, by proportion to total turnover);
- (b) Category B (brokerage firms ranking 15th to 65th, by proportion to total turnover); and
- (c) Category C (brokerage firms ranking after 65th, by proportion to total turnover).

[REDACTED]

HONG KONG SECURITIES BROKERAGE INDUSTRY

Securities brokerage business

Transaction value by category of Stock Exchange Participants, 2007-2017



Total	43,331	35,307	31,030	34,417	34,302	26,594	30,515	34,297	52,163	32,770	43,337
Category A	21,834	18,766	16,164	17,605	18,360	15,233	16,818	18,557	26,866	18,107	22,498
Category B	16,352	12,814	11,001	12,472	12,074	8,618	10,240	11,805	18,976	10,549	14,514
Category C	5,145	3,727	3,865	4,340	3,868	2,743	3,457	3,935	6,321	4,114	6,325

Note: Both buy and sell transactions have been counted in the calculation. The range of transaction size is of exclusive at the bottom end and inclusive at the top end, e.g. 50,000 — 100,000 should read as >50,000 and ≤100,000.

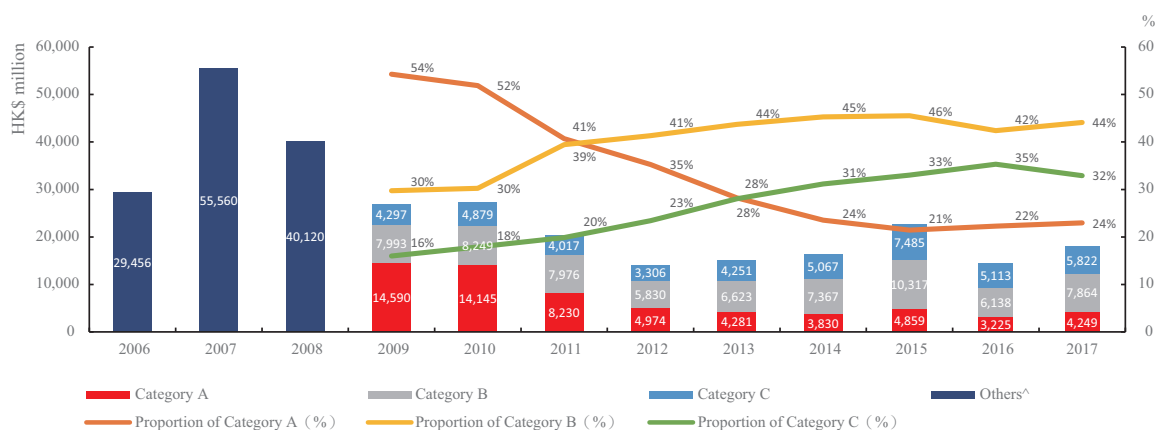
Source: SFC

Category B exhibited a stronger growth of transaction value than the other two categories in market boom time. The total transaction value recorded a dramatic rise of about 158.6% in one year to HK\$43,331 billion in 2007, of which Category B demonstrated the most significant growth of 174.3%, followed by Category A with 150.4% and Category C with 148.2%. The total transaction value was then cooled down to HK\$35,307 billion in 2008, where the transaction values of Category A, Category B and Category C decreased by 14.1%, 21.6% and 27.6% when comparing to 2007. There was also a remarkable increase in total transaction value from HK\$34,297 billion in 2014 to HK\$52,163 billion in 2015, where Category B reached the highest growth of 60.7% comparing to Category A and Category C which were 44.8% and 60.6% respectively. The total transaction value was then dropped to HK\$32,770 billion in 2016, of which Category B reflected a notable decrease of

INDUSTRY OVERVIEW

44.4% with reference to 2015, whereas the drop of Category A and Category C were 32.6% and 34.9% respectively. For the year ended 31 December 2017, each of Categories A, B and C accounted for 51.9%, 33.5% and 14.6% of the market share in terms of transaction value.

Net securities commission income - by category



[^] Net securities commission income from SEHK participants (net securities commission income from SEHK participants from 2006 to 2008 were not classified by category)

Source: Financial review of the securities industry for the year ended 31 December 2006-2017

Over the last decade, the net securities commission income from SEHK participants topped at HK\$55,560 million in 2007 and recovered to approximately HK\$22,661 million in 2015 due to the introduction of Shanghai Connect and bullish market sentiment. Although the transaction value hit a new high in 2015, the net securities commission income from SEHK participants was significantly lower than that in 2007. During 2009 to 2015, the proportion of net securities commission income from Category A decreased from 54% to 21% while the proportion of net securities commission income from Categories B and C increased from 30% and 16% to 46% and 33% respectively. The net securities commission income from SEHK participants dropped significantly to HK\$14,476 million in 2016 due to the correction of the China A-Share index in mid-2015. For the year ended 31 December 2017, the net securities commission income from SEHK participants was HK\$17,935 million and the proportion of net securities commission income from Categories A, B and C remained stable.

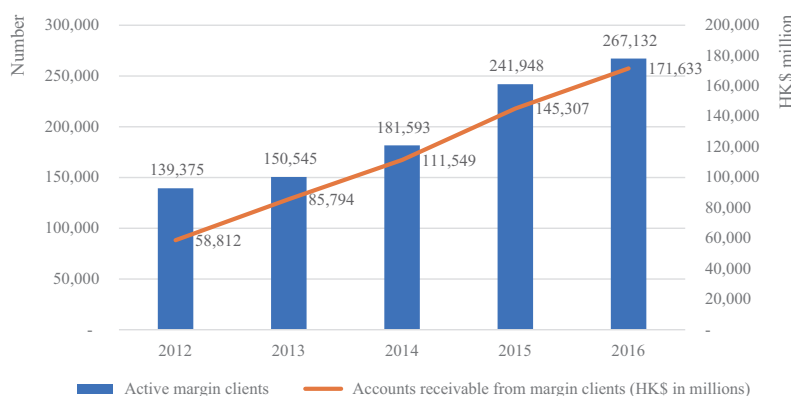
Securities margin business

In January 2007, the Hong Kong Monetary Authority (“HKMA”) issued guidelines on “New Share Subscription and Share Margin Financing”, which stipulated that authorised lending institutions should impose reasonable margin requirements on loans to individual clients. At present, the market generally collects a margin of 10.0% on lending. The authorised lending institutions should act prudently when determining margin rates and consider the relevant financial capacity, liquidity and price volatility of individual securities. The prevailing market standards are: (i) 50.0% to 60.0% for blue-chip securities (some authorised lending institutions adopt 70.0%); and (ii) 30.0% to 40.0% for second and third tier securities.

According to the annual reports of the SFC (2014-2015, 2015-2106 and 2016-2017), margin business developed rapidly and the number of active margin clients increased from 139,375 in 2012 to 267,132 in 2016, representing a CAGR of 17.7%. The amounts receivable from active margin clients increased from HK\$58.8 billion in 2012 to HK\$171.6 billion in 2016, representing a CAGR of 30.7% and the average collateral coverage fluctuated between 3.9 and 4.4 times.

INDUSTRY OVERVIEW

Number of active margin clients and amounts receivable from margin clients from 2012 to 2016



	As at 31 December				
	2012	2013	2014	2015	2016
Average collateral coverage <i>(Note)</i>	4.2x	3.9x	4.2x	4.4x	4.0x

Source: Annual reports of SFC (2014-15, 2015-16, 2016-17)

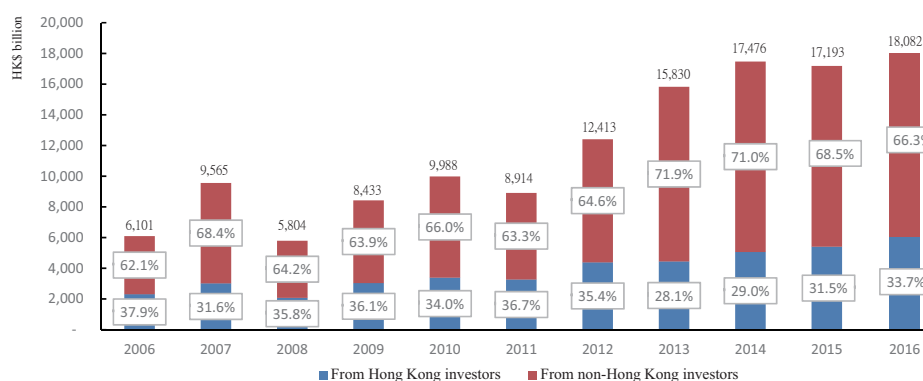
Note: Average collateral coverage represents the number of times the aggregate market value of securities collateral deposited by margin clients over the amounts receivable from these clients on a given date on an industry-wide basis.

Asset management business

According to Fund Management Activities Survey 2016 released by the SFC, the scale of combined fund management business (excluding REITs) in Hong Kong increased from HK\$6,101 billion in 2006 to HK\$18,082 billion in 2016, of which asset management business, private banking business of registered institutions and fund advisory business of licenced corporations accounted for 70.9%, 22.4% and 6.6% respectively.

Overseas investors remained the main source of funding for Hong Kong’s fund management business, accounting for 66.3% (excluding REITs) of the market in 2016. Benefiting from the gradual liberalisation of the PRC financial market, stable overseas funds flowing into the Hong Kong market help consolidate the status of Hong Kong as an international financial centre.

Fund management business (excluding REITs) — by source of funds



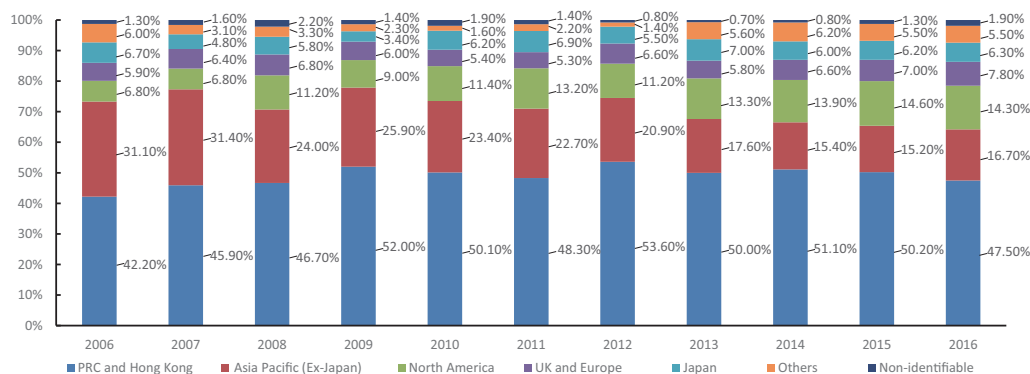
Source: SFC’s Fund Management Activities Survey (2006-2016)

As a result of Hong Kong’s solid infrastructure and talent pool, the proportion of assets managed in Hong Kong remained stably over the past three years and reached 54.8% of the asset management business in 2016.

INDUSTRY OVERVIEW

Out of the assets managed in Hong Kong in 2016, 54.3% were invested in equities while 26.8% were invested in bonds. In 2016, the PRC and Hong Kong remained the most preferred locations for investment, which amounted to \$3,337 billion and accounted for 47.5% of all assets managed in Hong Kong.

Assets managed in Hong Kong (by geographical distribution)



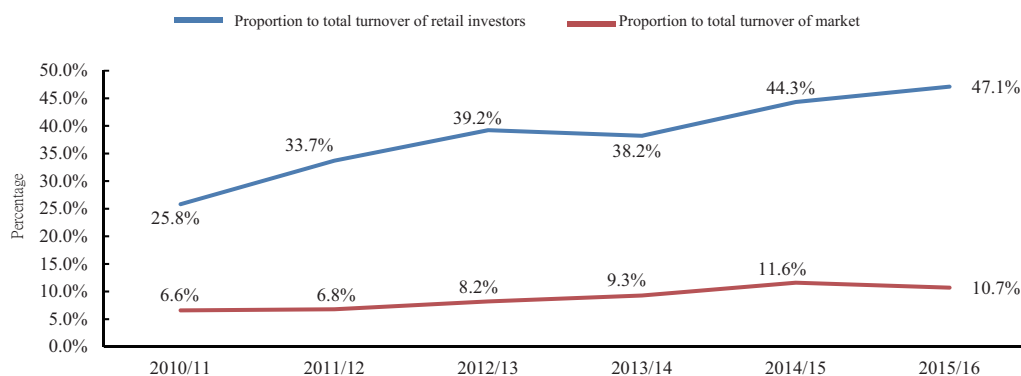
Source: SFC’s Fund Management Activities Survey (2006-2016)

FUTURE OUTLOOK

Online brokerage business

According to the Cash Market Transaction Survey released by HKEx in July 2017, the number of online brokers increased from 209 in 2010/11 (response rate: 48%) to 274 in 2016 (response rate: 61%), representing a growth of 31.1%. Percentage of online trading to retail investors’ trading increased from 25.8% in 2010/11 to 47.1% in 2016.

Proportion of retail online trading to cash market transaction (2010/11-2016)



Source: HKEx - Cash Market Transaction Survey (2010/11 — 2016)

INDUSTRY OVERVIEW

Cash market transaction survey (2010/11-2016)

	2010/11	2011/12	2012/13	2013/14	2014/15	2016
Number of respondents	431	453	457	433	414	446
Online brokers						
Number of online brokers	209	245	250	247	240	274
- Response rate	48%	54%	55%	57%	58%	61%
Online trading						
Estimated total turnover (HK\$ million)	1,252,109	919,187	1,235,360	1,465,223	3,079,997	1,758,013
- Proportion to total turnover of retail investors	25.8%	33.7%	39.2%	38.2%	44.3%	47.1%
- Proportion to total turnover of market	6.6%	6.8%	8.2%	9.3%	11.6%	10.7%

Source: HKEx — Cash Market Transaction Survey (2010/11 — 2016)

Advanced trading system

To meet the needs that all transactions must be carried on in the trading hall at that time, HKEx launched the AMS terminal in 1993. As the relevant technology became obsolete, HKEx replaced the AMS terminal with New Securities Trading Device (“NSTD”). The new securities trading facility is offered to all exchange participants under the brand name “ET Trade Speed Station”. ET Trade Speed Station is a front-end trading facility, which is compatible with new main market platforms of HKEx: HKEx Orion Central Gateway (“OCG”) and HKEx Orion Market Data Platform - Securities Market (“OMD-C”).

One Belt One Road Initiative

One Belt One Road Initiative is one of the important strategies for national development of the PRC, and Hong Kong has been playing an important role as an investment and financing centre. Participants can use this platform to finance and carry out One Belt One Road Initiative related business through public offerings, bond issues and syndicated loans as well as other diversified channels. The HKMA launched the Infrastructure Financing Facilitation Office (“IFFO”) in July 2016, which has been a partner with more than 60 professional organisations since then.

Internationalisation of RMB

With the implementation of the strategy, the PRC has signed RMB swap agreements with various countries along the route, and some of these countries were granted the quotas of RMB Qualified Foreign Institutional Investors (“RQFII”) by the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局). Trade settlement, direct investment and financing for projects, currency swap and offshore RMB market establishment ushered in tremendous opportunities. As one of the world’s largest offshore RMB pools of funds, Hong Kong will play an important role in the internationalisation of RMB.

INDUSTRY OVERVIEW

Investment globalisation of PRC investors

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

Competitive landscape

The rapid development of the Hong Kong stock market created demand for the securities industry, but at the same time intensified the competition among the small and medium-sized securities firms. On 1 April 2003, the minimum commission requirement was abolished by the HKEx. Brokerage firms may determine their own commissions with their clients, which exacerbates the competition in Hong Kong’s securities brokerage business. As at 31 December 2017, 669 Stock Exchange Trading Rights holders were registered with HKEx, including 622 trading Stock Exchange Participants, 32 non-trading Stock Exchange Participants and 15 non-Stock Exchange Participants.

Year	Category A (Ranking 1-14)	Category B (Ranking 15-65)	Category C (Ranking after 65)
2013	55.97%	32.54%	11.49%
2014	54.24%	34.15%	11.61%
2015	52.31%	35.30%	12.39%
2016	56.55%	32.94%	10.51%
2017	54.64%	34.88%	10.48%

Source: HKEx Fact Book 2017

Note: The above report includes all Stock Exchange Participant companies that have paid the transaction levy, investor compensation levy (if applicable) and transaction fees to the Stock Exchange.

As stated in the above table, the market share of the Hong Kong securities brokerage business in terms of market turnover was relatively concentrated. The top 14 participants accounted for 54.64% of the market share and the market share of Category B participants increased to 34.88% in 2017.

By the end of 2017, the number of corporations licensed by the SFC for asset management (type 9 regulated activity) in Hong Kong increased by 13.6% to 1,477 corporations comparing to the previous year. The number of individuals licensed for asset management also grew correspondingly by 10.3% to 10,530. In addition, PRC companies continued to actively expand in the Hong Kong market. As at 31 March 2017, the number of licensed corporations and registered institutions established by PRC-related groups in Hong Kong increased by 15.9% year-on-year and reached 313.

INDUSTRY OVERVIEW

ENTRY BARRIERS TO THE HONG KONG CAPITAL MARKET AND CHALLENGES

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

Regulatory requirements

The SFC is responsible for regulating the securities and futures markets in Hong Kong. Securities trading activities are regulated by the SFO and relevant laws. A new participant must be licensed by the SFC to become a licensed corporation. A licensed corporation shall have no less than two Responsible Officers who should directly supervise the conduct of regulated activities. Among those Responsible Officers to be appointed, at least one of them must be an executive director defined by the SFO. Therefore, the cost for new entrants to enter the Hong Kong securities brokerage industry is high.

Fierce competition

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

Requirement to comply with the FRR

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

REGULATORY OVERVIEW

This section sets out summaries of certain aspects of the regulatory environment in Hong Kong, which are relevant to our Group’s business and operation.

REGULATIONS AND SUPERVISION OF THE SECURITIES BUSINESS IN HONG KONG

Securities and Futures Commission

Regulation of the securities and futures market

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

The SFC is an independent statutory body set up in May 1989, the power of which is derived from the SFO and other subsidiary rules and regulations. The SFC administers the SFO and is responsible for regulating the securities and futures market in Hong Kong. The SFC strives to strengthen and safeguard the integrity and soundness of Hong Kong’s securities and futures markets for the benefit of investors and the industry.

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

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

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

REGULATORY OVERVIEW

Securities and Futures Ordinance

Licensing regime

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

Under the SFO, a person who:

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

must be licensed under the relevant provisions of the SFO to carry on that regulated activity, unless one of the exceptions under the SFO applies.

Furthermore, under the SFO, only a company incorporated in Hong Kong or an overseas company registered under Part 16 of the Companies Ordinance as a non-Hong Kong company can be licensed to carry out a regulated activity.

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

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

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

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

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

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

REGULATORY OVERVIEW

Type 9:	Asset management
Type 10:	Providing credit rating services

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

Responsible Officer

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

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

Qualification and experience required for being a responsible officer

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

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

Licensed Representative

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

Qualification and experience required for being a licensed representative

A person who intends to apply to be a licensed representative must demonstrate his or her competence requirement under the SFO. An applicant has to establish that he or she has the requisite

REGULATORY OVERVIEW

basic understanding of the market in which he or she is to work as well as the laws and regulatory requirements applicable to the industry. The SFC will have regard to the applicant's academic and industry qualifications and regulatory knowledge in assessing the applicant's competence to be licensed as a licensed representative.

Fit and Proper

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

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

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

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

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

- (a) decisions made by such relevant authorities as stated in section 129(2)(a) of the SFO or any other authority or regulatory organisation, whether in Hong Kong or elsewhere, in respect of that person;
- (b) in the case of a corporation, any information in the possession of the SFC or the HKMA relating to:
 - (i) any other corporation within the group of companies; or
 - (ii) any substantial shareholder or officer of the corporation or of any of its group companies;

REGULATORY OVERVIEW

- (c) in the case of a corporation licensed under section 116 or section 117 of the SFO or registered under section 119 of the SFO or an application for such licence or registration:
 - (i) any information in the possession of the SFC or the HKMA relating to any other person who will be acting for or on its behalf in relation to the regulated activity; and
 - (ii) whether the person has established effective internal control procedures and risk management systems to ensure its compliance with all applicable regulatory requirements under any of the relevant provisions;
- (d) in the case of a corporation licensed under section 116 or section 117 of the SFO or an application for the licence, any information in the possession of the SFC or the HKMA relating to any person who is or to be employed by, or associated with, the person for the purposes of the regulated activity; and
- (e) the state of affairs of any other business which the person carries on or proposes to carry on.

The SFC is obliged to refuse an application if the applicant fails to satisfy the SFC that he or she is a fit and proper person to be licensed. The onus lies on the applicant to make out a case that he or she is fit and proper to be licensed for the regulated activity. In the event that an application to be registered under section 119 of the SFO is made by an Authorised Institution, the SFC is also obliged to take the advice given to it by the HKMA into consideration, whether wholly or partly, when determining whether it has been satisfied that the applicant is a fit and proper person.

Main On-Going Obligations of Licensed Corporations

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

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

Maintenance of minimum paid-up share capital and liquid capital

Depending on the type of regulated activity, licensed corporations must maintain at all times paid-up share capital and liquid capital not less than the specified amounts according to the FRR. If a licensed corporation conducts more than 1 type of regulated activity, the minimum paid-up share capital and liquid capital that it must maintain shall be the highest amount required amongst those regulated activities.

REGULATORY OVERVIEW

Minimum paid-up share capital

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

Regulated activity	Minimum paid-up share capital
Type 1	
(a) in the case where the licensed corporation is an approved introducing agent or a trader	Not applicable
(b) in the case where the licensed corporation provides securities margin financing	HK\$10,000,000
(c) in any other case	HK\$5,000,000
Type 2	
(a) in the case where the licensed corporation is an approved introducing agent or a trader or a futures non-clearing dealer	Not applicable
(b) in any other case	HK\$5,000,000
Type 4	
(a) in the case where in relation to the Type 4 regulated activity, the licensed corporation is subject to the licensing condition that it shall not hold client assets	Not applicable
(b) in any other case	HK\$5,000,000
Type 9	
(a) in the case where in relation to the Type 9 regulated activity, the licensed corporation is subject to the licensing condition that it shall not hold client assets	Not applicable
(b) in any other case	HK\$5,000,000

Minimum liquid capital

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

- (a) The amount of:
 - (i) HK\$500,000 in the case of a corporation licensed for Type 1 (dealing in securities) or Type 2 (dealing in futures contracts) regulated activity that is an approved introducing agent or a futures non-clearing dealer; or

REGULATORY OVERVIEW

- (ii) HK\$100,000 in the case of a corporation licensed for Type 4 (advising on securities) or Type 9 (asset management) regulated activity that is subject to the licensing condition that it shall not hold client assets; or
 - (iii) HK\$3,000,000 in the case of a corporation licensed for other Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) or Type 9 (asset management) regulated activity not within the scope of paragraphs (i) and (ii) above.
- (b) 5% of the aggregate of:
- (i) the licensed corporation's on-balance sheet liabilities including provisions made for liabilities already incurred or for contingent liabilities but excluding certain amounts stipulated in the definition of "adjusted liabilities" under the SFO;
 - (ii) the aggregate of the initial margin requirements in respect of outstanding futures contracts and outstanding options contracts held by it on behalf of its clients; and
 - (iii) the aggregate of the amounts of margin required to be deposited in respect of outstanding futures contracts and outstanding options contracts held by it on behalf of its clients, to the extent that such contracts are not subject to payment of initial margin requirements.

A licenced corporation must ensure its liquid capital, being the difference between its liquid asset and ranking liabilities, exceeds the required minimum liquid capital in all times.

Repledging of collateral securities

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

Pursuant to section 8A of the Securities and Futures (Client Securities) Rules (Cap 571H), the maximum aggregate market value of repledged securities must not exceed 140% of the value of margin loan balance at the end of a trading day. Further, pursuant to section 42(1) of the FRR, a licenced corporation licensed for Type 1 or Type 8 regulated activity shall include in its ranking liabilities, any amount receivable from any of its margin clients, when calculated on a client-by-client basis, exceeds 10% of the aggregate of amounts receivable from its margin portfolio.

REGULATORY OVERVIEW

Maintenance of segregated accounts and custody and handling of client securities

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

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

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

Issue of contract notes, statements of account and receipts

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

Record keeping requirements

A licensed corporation must keep records in accordance with the requirements under the Securities and Futures (Keeping of Records) Rules (Chapter 571O of the Laws of Hong Kong)

REGULATORY OVERVIEW

(“**SFKRR**”). The SFKRR requires licensed corporations to keep proper records. It prescribes the records that are to be kept by licensed corporations to ensure that they maintain comprehensive records in sufficient detail relating to their businesses and client transactions for proper accounting of their business operations and clients’ assets.

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

Submission of audited accounts

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

Submission of financial resources returns

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

Payment of annual fees

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

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

REGULATORY OVERVIEW

Type of intermediary	Type of regulated activity	Annual fees
Licensed representative (approved as responsible officer)	Types 1, 2, 4, 9	HK\$4,740 per regulated activity

Maintenance of insurance

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

Notification to the SFC of certain changes and events

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

Continuous professional training

According to the Guidelines on Continuous Professional Training published by the SFC pursuant to section 399 of the SFO, a licensed corporation is held primarily responsible for designing and implementing a continuous education system best suited to the training needs of the individuals it engages which will enhance their industry knowledge, skills and professionalism. A licensed corporation should at least annually evaluate its training programs and make commensurate adjustments to cater for the training needs of the individuals it engages. Licensed individuals must undertake a minimum of 5 continuous professional training hours per calendar year for each regulated activity he or she engages in, except for Type 7 (providing automated trading services) regulated activity. The SFC also requires training on particular issues, such as anti-money laundering and counter-terrorist financing issues.

Obligation for substantial shareholder

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

REGULATORY OVERVIEW

Other Approvals from the SFC

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

Employee dealings

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

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

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

REGULATORY OVERVIEW

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

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

Licensed corporations are required to comply with applicable anti-money laundering laws and regulations in Hong Kong. The four main pieces of legislation that apply to licensed corporations in Hong Kong that are concerned with anti-money laundering and counterterrorist financing (“**AML/CTF**”) are the AMLO, the Drug Trafficking (Recovery of Proceeds) Ordinance (Chapter 405 of the Laws of Hong Kong) (“**DTROP**”), the Organised and Serious Crimes Ordinance (Chapter 455 of the Laws of Hong Kong) (“**OSCO**”) and the United Nations (Anti-Terrorism Measures) Ordinance (Chapter 575 of the Laws of Hong Kong). (“**UNATMO**”).

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

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

DTROP

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

REGULATORY OVERVIEW

OSCO

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

UNATMO

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

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

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

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

Hong Kong Exchanges and Clearing Limited

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

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

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

HISTORY, DEVELOPMENT AND REORGANISATION

GENERAL

Our history can be traced back to early 1970s when Dr. Kou Tak Tai (the father of Ms. Kou, who is our executive Director, chief executive officer and a Controlling Shareholder) together with two Independent Third Parties founded Victory Investment Company which provided securities broking services to individual and corporate clients. Dr. Kou Tak Tai had over 40 years of experience in the securities industry. In recognition of his outstanding achievements, Dr. Kou Tak Tai was awarded as an Honourable Doctor of Sinte Gleska University of California, United States of America and received a World Outstanding Chinese Award, both in 2007.

Victory Investment Company was registered as a dealer with The Kam Ngan Stock Exchange Limited which was one of the four stock exchanges of Hong Kong. In 1986, The Kam Ngan Stock Exchange Limited together with The Hong Kong Stock Exchange, The Far East Exchange, and The Kowloon Stock Exchange were replaced by the unified stock exchange, namely, The Stock Exchange of Hong Kong Limited. Victory Investment Company was then registered as a dealer with the Stock Exchange.

In 1993, Victory Securities (HK), our principal operating subsidiary, was incorporated as a limited liability company in Hong Kong and Victory Investment Company transferred all its business to Victory Securities (HK). Victory Securities (HK) was founded by the late Dr. Kou Tak Tai, Ms. Kou and Mr. Ko Tak San (the younger brother of Dr. Kou Tak Tai) with their respective personal financial resources. Following the migration under the new licensing regime, Victory Securities (HK) has become a licensed corporation and has been licensed for carrying out Type 1 (dealing in securities), 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 since 1 April 2003. Since 16 February 2007, Victory Securities (HK) has also been licensed for carrying out Type 2 (dealing in futures contracts) regulated activity.

In 2004, Victory Securities (HK) merged with Ten & Ten Securities Company. Ten & Ten Securities Company was a securities broker firm which was solely owned by Mr. Chiu, who is our executive Director and chief operating officer. As a result of the merger, most of the clients of Ten & Ten Securities Company were transferred to Victory Securities (HK) and Mr. Chiu joined Victory Securities (HK) as its branch manager. Ten & Ten Securities Company subsequently ceased conducting its business in March 2005.

Since the establishment of our Group, the principle of our Group is “Integrity, Trust-worthiness and Prudence” and the motto of our Group is “providing trust-worthy and client-oriented services”.

Business Milestones

1970s	Victory Investment Company was founded by the late Dr. Kou Tak Tai together with two Independent Third Parties and registered as a dealer with The Kam Ngan Stock Exchange Limited
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HISTORY, DEVELOPMENT AND REORGANISATION

- 1986 Victory Investment Company was registered as a dealer with the Stock Exchange
- 1993 Victory Securities (HK) was incorporated as a limited liability company in Hong Kong and Victory Investment Company has transferred all its business to Victory Securities (HK)
- Victory Securities (HK) was registered as a dealer under the repealed Securities Ordinance (Chapter 333 of the Laws of Hong Kong) in May 1993
- 1999 Victory Securities (HK) became a member of the Stock Exchange
- 2003 Victory Securities (HK) became a licensed corporation which was licensed for carrying out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) 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
- 2004 Victory Securities (HK) merged with Ten & Ten Securities Company
- Victory Securities (HK) voluntarily surrendered its licenses for carrying out Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities
- 2007 Victory Securities (HK) was licensed for carrying out Type 2 (dealing in futures contracts) regulated activity
- Victory Securities (HK) commenced to provide asset management services to clients who are CIES applicants
- 2008 Victory Securities (HK) obtained the ISO 9001 International Quality Management Certification regarding provision of securities and futures services
- 2009 Victory Securities (HK) purchased its head office which is situated at Offices A, E & F, 11/F Yardley Commercial Building, No. 3 Connaught Road West, Hong Kong
- 2014 Victory Securities (HK) obtained approval to become a China Connect Exchange Participant and a China Connect Clearing Participant, and launched our Shanghai Connect services
- Victory Securities (HK) expanded its services by providing its clients with access to overseas trading systems for trading of securities listed on major financial markets in the world
- 2016 Victory Securities (HK) launched our Shenzhen Connect services

HISTORY, DEVELOPMENT AND REORGANISATION

CORPORATE STRUCTURE

The following sets out the corporate development of each member of our Group since their respective dates of incorporation.

Our Company

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 22 August 2016 with an authorised share capital of US\$50,000 divided into 100,000,000 Shares of US\$0.0005 each, of which one share was allotted and issued as fully paid to an initial nominee subscriber at par. On the same date, the one share held by the initial nominee subscriber, namely International Corporation Services Ltd., was transferred to DTTKF at par and 49,999 shares were also issued and allotted as fully paid to DTTKF at par.

On 14 September 2017, the authorised share capital of our Company was increased from US\$50,000 divided into 100,000,000 shares each with a par value of US\$0.0005 to the aggregate of US\$50,000 and HK\$390,000 by creation of an additional 39,000,000 shares each with a par value of HK\$0.01. On the same date, our Company allotted and issued 19,500 shares of HK\$0.01 par value each to DTTKF, immediately followed by the repurchase of 50,000 shares each with a par value of US\$0.0005 each held by DTTKF. On the same date, the authorised but unissued share capital of our Company was reduced by cancellation of 100,000,000 shares of US\$0.0005 par value each, such that the authorised share capital of our Company became HK\$390,000 divided into 39,000,000 Shares of HK\$0.01 par value each.

Our Subsidiaries

As at the Latest Practicable Date, our Company has four subsidiaries, namely, Victory Securities (BVI), Victory Securities (HK), Victory (Nominees) and Victory VC Asset Management, details of which are set out below.

Victory Securities (BVI)

Victory Securities (BVI), a limited liability company, was incorporated in BVI on 4 September 2015. Victory Securities (BVI) is authorised to issue a maximum of 50,000 shares with a par value of US\$1.00, of which one share was allotted and issued as fully paid to an initial nominee subscriber at par. On 22 August 2016, the one share held by the initial nominee subscriber, namely Aslantic Holdings Limited, was transferred to our Company at par and 49,999 Shares were also issued and allotted as fully paid to our Company at par.

As at the Latest Practicable Date, Victory Securities (BVI) was an intermediate holding company and held the entire issued share capital of Victory Securities (HK).

Victory Securities (HK)

Victory Securities (HK) was incorporated in Hong Kong on 14 January 1993. It is our principal operating subsidiary, principally engaged in the provision of securities broking services, financing services and asset management services. Victory Securities (HK) was founded by the late Dr. Kou Tak Tai, Ms. Kou Kuen and Mr. Ko Tak San (the younger brother of Dr. Kou Tak Tai).

HISTORY, DEVELOPMENT AND REORGANISATION

Victory Securities (HK) had the following shareholding changes of material importance before the Track Record Period:

Date	Parties involved	Details of shareholding changes
6 June 2001	The late Dr. Kou Tak Tai (as transferor) and Mr. Chan ^(Note 1) (as transferee)	The late Dr. Kou Tak Tai sold 1,000,000 shares to Mr. Chan at a consideration of HK\$1,000,000.00 with reference to the total paid up value of the issued shares of Victory Securities (HK). Mr. Chan became a shareholder of Victory Securities (HK) after the share transfer.
6 June 2001	The late Dr. Kou Tak Tai (as transferor) and Mr. Ko Yuen Kwan ^(Note 2) (as transferee)	The late Dr. Kou Tak Tai sold 100,000 shares to Mr. Ko Yuen Kwan at a consideration of HK\$100,000.00 with reference to the total paid up value of the issued shares of Victory Securities (HK). Mr. Ko Yuen Kwan became a shareholder of Victory Securities (HK) after the share transfer.
6 June 2001	Mr. Ko Tak San ^(Note 3) (as transferor) and Mr. Ko Yuen Kwan ^(Note 2) (as transferee)	Mr. Ko Tak San sold 400,000 shares to Mr. Ko Yuen Kwan at a consideration of HK\$400,000.00 with reference to the total paid up value of the issued shares of Victory Securities (HK).
6 June 2001	The late Dr. Kou Tak Tai (as transferor) and Ms. Kwok Lo Ming ^(Note 4) (as transferee)	The late Dr. Kou Tak Tai sold 500,000 shares to Ms. Kwok Lo Ming at a consideration of HK\$500,000.00 with reference to the total paid up value of the issued shares of Victory Securities (HK). Ms. Kwok Lo Ming became a shareholder of Victory Securities (HK) after the share transfer.
15 July 2005	Mr. Ko Yuen Kwan ^(Note 2) (as transferor) and Mr. Ko Yuen Fai ^(Note 5) (as transferee)	Mr. Ko Yuen Kwan sold 100,000 shares to Mr. Ko Yuen Fai at a consideration of HK\$100,000.00 with reference to the total paid up value of the issued shares of Victory Securities (HK). Mr. Ko Yuen Fai became a shareholder of Victory Securities (HK) after the share transfer.

HISTORY, DEVELOPMENT AND REORGANISATION

Date	Parties involved	Details of shareholding changes
15 July 2005	Mr. Ko Yuen Kwan ^(Note 2) (as transferor) and Mr. Ko Yuen Sing ^(Note 6) (as transferee)	Mr. Ko Yuen Kwan sold 100,000 shares to Mr. Ko Yuen Sing at a consideration of HK\$100,000.00 with reference to the total paid up value of the issued shares of Victory Securities (HK). Mr. Ko Yuen Sing became a shareholder of Victory Securities (HK) after the share transfer.
15 July 2005	Ms. Kwok Lo Ming ^(Note 4) (as transferor) and Mr. Ko Yuen San ^(Note 7) (as transferee)	Ms. Kwok Lo Ming sold 100,000 shares to Mr. Ko Yuen San at a consideration of HK\$100,000.00 with reference to the total paid up value of the issued shares of Victory Securities (HK). Mr. Ko Yuen San became a shareholder of Victory Securities (HK) after the share transfer.
15 July 2005	Ms. Kwok Lo Ming ^(Note 4) (as transferor) and Mr. Yeung Tak Kuen ^(Note 8) (as transferee)	Ms. Kwok Lo Ming sold 200,000 shares to Mr. Yeung Tak Kuen at a consideration of HK\$200,000.00 with reference to the total paid up value of the issued shares of Victory Securities (HK). Mr. Yeung Tak Kuen became a shareholder of Victory Securities (HK) after the share transfer.
10 January 2006	The late Dr. Kou Tak Tai (as transferor) and Mr. Chiu ^(Note 9) (as transferee)	The late Dr. Kou Tak Tai sold 200,000 shares to Mr. Chiu at a consideration of HK\$200,000.00 with reference to the total paid up value of the issued shares of Victory Securities (HK). Mr. Chiu became a shareholder of Victory Securities (HK) after the share transfer.
6 March 2008	Mr. Chan ^(Note 1) (as transferor) and Mr. Sze Tung ^(Note 10) (as transferee)	Mr. Chan sold 200,000 shares to Mr. Sze Tung at a consideration of HK\$200,000.00 with reference to the total paid up value of the issued shares of Victory Securities (HK). Mr. Sze Tung became a shareholder of Victory Securities (HK) after the share transfer.

HISTORY, DEVELOPMENT AND REORGANISATION

Date	Parties involved	Details of shareholding changes
3 March 2010	Ms. Meng Li ^(Note 11) and Victory Securities (HK)	Ms. Meng Li was allotted 1,000,000 shares at a consideration of HK\$1,000,000.00 with reference to the total paid up value of the issued shares of Victory Securities (HK). Ms. Meng Li became a shareholder of Victory Securities (HK) after the share allotment.
20 May 2011	The late Dr. Kou Tak Tai (as transferor) and Victory (Nominees) (as transferee)	The late Dr. Kou Tak Tai sold 48,000 shares to Victory (Nominees) (as a trustee of Mr. Chan Pui Chuen) at a consideration of HK\$48,000.00 with reference to the total paid up value of the issued shares of Victory Securities (HK). As a result of the share transfer, Victory (Nominees) became a legal owner of the shares of Victory Securities (HK) and held the shares on trust for the beneficial owner, Mr. Chan Pui Chuen.
2 October 2015	Victory (Nominees) (as transferor) and Mr. Chan Pui Chuen ^(Note 12) (as transferee)	Victory (Nominees), as a trustee, transferred 48,000 shares to the beneficial owner, Mr. Chan Pui Chuen. As a result of the share transfer, Mr. Chan Pui Chuen became a legal owner of the shares of Victory Securities (HK).
22 December 2015	Ms. Kou, in her capacity as the executrix of the estate of Dr. Kou Tak Tai ^(Note 13) (as transferor) and Ms. Kou (as transferee)	Ms. Kou, in her capacity as the executrix of the estate of Dr. Kou Tak Tai, transferred 10,500,000 shares to Ms. Kou.
22 December 2015	Ms. Kou, in her capacity as the executrix of the estate of Dr. Kou Tak Tai ^(Note 13) (as transferor) and Ms. Kou Luen ^(Note 14) (as transferee)	Ms. Kou, in her capacity as the executrix of the estate of Dr. Kou Tak Tai, transferred 10,500,000 shares to Ms. Kou Luen.

Notes:

- (1) Mr. Chan is the spouse of Ms. Kou, the son-in-law of the late Dr. Kou Tak Tai and the father of Mr. Chan Pui Chuen. Mr. Chan is a non-executive Director, the Chairman and a Controlling Shareholder.

HISTORY, DEVELOPMENT AND REORGANISATION

- (2) Mr. Ko Yuen Kwan is the grandson of Mr. Ko Tak San, the son of Ms. Kwok Lo Ming and the brother of Mr. Ko Yuen San, Mr. Ko Yuen Sing and Mr. Ko Yuen Fai. Mr. Ko Yuen Kwan is an account executive of Victory Securities (HK) and a Controlling Shareholder.
- (3) Mr. Ko Tak San is the younger brother of Dr. Kou Tak Tai, the father-in-law of Ms. Kwok Lo Ming, and the grandfather of Mr. Ko Yuen Kwan, Mr. Ko Yuen San, Mr. Ko Yuen Sing and Mr. Ko Yuen Fai.
- (4) Ms. Kwok Lo Ming is the daughter-in-law of Mr. Ko Tak San, the cousin-in-law of Ms. Kou and Ms. Kou Luen, and the mother of Mr. Ko Yuen Kwan, Mr. Ko Yuen San, Mr. Ko Yuen Sing and Mr. Ko Yuen Fai. Ms. Kwok Lo Ming is a dealer of Victory Securities (HK) and a Controlling Shareholder.
- (5) Mr. Ko Yuen Fai is the grandson of Mr. Ko Tak San, the son of Ms. Kwok Lo Ming and the brother of Mr. Ko Yuen Kwan, Mr. Ko Yuen San and Mr. Ko Yuen Sing. Mr. Ko Yuen Fai is an account executive of Victory Securities (HK) and a Controlling Shareholder.
- (6) Mr. Ko Yuen Sing is the grandson of Mr. Ko Tak San, the son of Ms. Kwok Lo Ming and the brother of Mr. Ko Yuen Kwan, Mr. Ko Yuen San and Mr. Ko Yuen Fai. Mr. Ko Yuen Sing is a settlement officer of Victory Securities (HK) and a Controlling Shareholder.
- (7) Mr. Ko Yuen San is the grandson of Mr. Ko Tak San, the son of Ms. Kwok Lo Ming and the brother of Mr. Ko Yuen Kwan, Mr. Ko Yuen Sing and Mr. Ko Yuen Fai. Mr. Ko Yuen San is a deputy director of operation of Victory Securities (HK) and a Controlling Shareholder.
- (8) Mr. Yeung Tak Kuen is a director of operation of Victory Securities (HK) and a Controlling Shareholder.
- (9) Mr. Chiu is an executive Director, the chief operating officer and a Controlling Shareholder.
- (10) Mr. Sze Tung is a director of asset management and a Responsible Officer of Victory Securities (HK) and a Controlling Shareholder.
- (11) Ms. Meng Li is a Controlling Shareholder. Ms. Meng is an investor engaged in private equity investment. Ms. Meng was introduced to our Group through Dr. Kou Tak Tai and she decided to invest in our Group because she was attracted by our Group’s growth potential and prospect. The Directors confirm that save the above relationship, Ms. Meng Li has no other relationship with the other Controlling Shareholders and the Company.
- (12) Mr. Chan Pui Chuen is the son of Ms. Kou and Mr. Chan. Mr. Chan Pui Chuen is an executive Director and a Controlling Shareholder.
- (13) Dr. Kou Tak Tai passed away on 13 March 2015. According to the Will of Dr. Kou Tak Tai, each of his daughters (namely, Ms. Kou and Ms. Kou Luen) shall inherit equal share of certain estate of Dr. Kou Tak Tai (including 21,000,000 shares of Victory Securities (HK) owned by Dr. Kou Tak Tai). On 30 June 2015, a probate was granted by the High Court of Hong Kong pursuant to which the administration of the estate and effects of Dr. Kou Tak Tai was granted to Ms. Kou who was the sole executrix named in the Will of Dr. Kou Tak Tai. Instruments of transfer dated 22 December 2015 were executed between Ms. Kou (being the executrix of the estate of Dr. Kou Tak Tai) on the one hand, and Ms. Kou and Ms. Kou Luen on the other hand for the respective transfer of 10,500,000 shares of Victory Securities (HK) to each of them. On 14 January 2016, the SFC approved Ms. Kou Luen to become the substantial shareholder of Victory Securities (HK). On 19 January 2016, each of Ms. Kou and Ms. Kou Luen was registered as a shareholder on the register of members of Victory Securities (HK).
- (14) Ms. Kou Luen is the elder sister of Ms. Kou and the daughter of Dr. Kou Tak Tai. Ms. Kou Luen is an account executive of Victory Securities (HK) and a Controlling Shareholder.

HISTORY, DEVELOPMENT AND REORGANISATION

From the commencement of the Track Record Period before the Reorganisation, the issued share capital of Victory Securities (HK) was HK\$100,000,000 divided into 100,000,000 shares and its shareholding structure was as follows:—

Name of shareholder	No. of shares held by the shareholder	Approximate percentage of shareholdings
Ms. Kou	66,625,000	66.63%
Ms. Kou Luen	10,500,000	10.50%
Mr. Chan	6,709,500	6.71%
Mr. Ko Yuen Kwan	3,780,000	3.78%
Ms. Kwok Lo Ming	3,307,500	3.31%
Mr. Chiu	2,000,000	2.00%
Mr. Ko Yuen Fai	1,890,000	1.89%
Ms. Meng Li	1,350,000	1.35%
Mr. Yeung Tak Kuen	1,300,000	1.30%
Mr. Ko Yuen Sing	945,000	0.94%
Mr. Ko Yuen San	945,000	0.94%
Mr. Sze Tung	600,000	0.60%
Mr. Chan Pui Chuen	48,000	0.05%

Victory (Nominees)

Victory (Nominees) was incorporated in Hong Kong on 30 November 2009. On the date of incorporation of Victory (Nominees), one share was allotted and issued as fully paid to Victory Securities (HK) at par and it became a wholly-owned subsidiary of Victory Securities (HK). Victory (Nominees) has not carried out any business activities (except for holding 48,000 shares of Victory Securities (HK) on trust for Mr. Chan Pui Chuen from 20 May 2011 to 2 October 2015) since its incorporation. The sole shareholder of Victory (Nominees) passed a special resolution on 27 July 2017 resolving that Victory (Nominees) will become dormant as from the date of delivery of the special resolution to the Registrar of Companies of Hong Kong. The special resolution was delivered to the Registrar of Companies of Hong Kong on 27 July 2017.

Victory VC Asset Management

Victory VC Asset Management was incorporated in Hong Kong on 19 August 2015. On the date of incorporation of Victory VC Asset Management, 1,000,000 shares were allotted and issued to Victory Securities (HK) and it became a wholly-owned subsidiary of Victory Securities (HK). Victory VC Asset Management has not carried out any business activities since its incorporation. The sole shareholder of Victory VC Asset Management passed a special resolution on 14 December 2016 resolving that Victory VC Asset Management will become dormant as from the date of delivery of the special resolution to the Registrar of Companies of Hong Kong. The special resolution was delivered to the Registrar of Companies of Hong Kong on 14 December 2016.

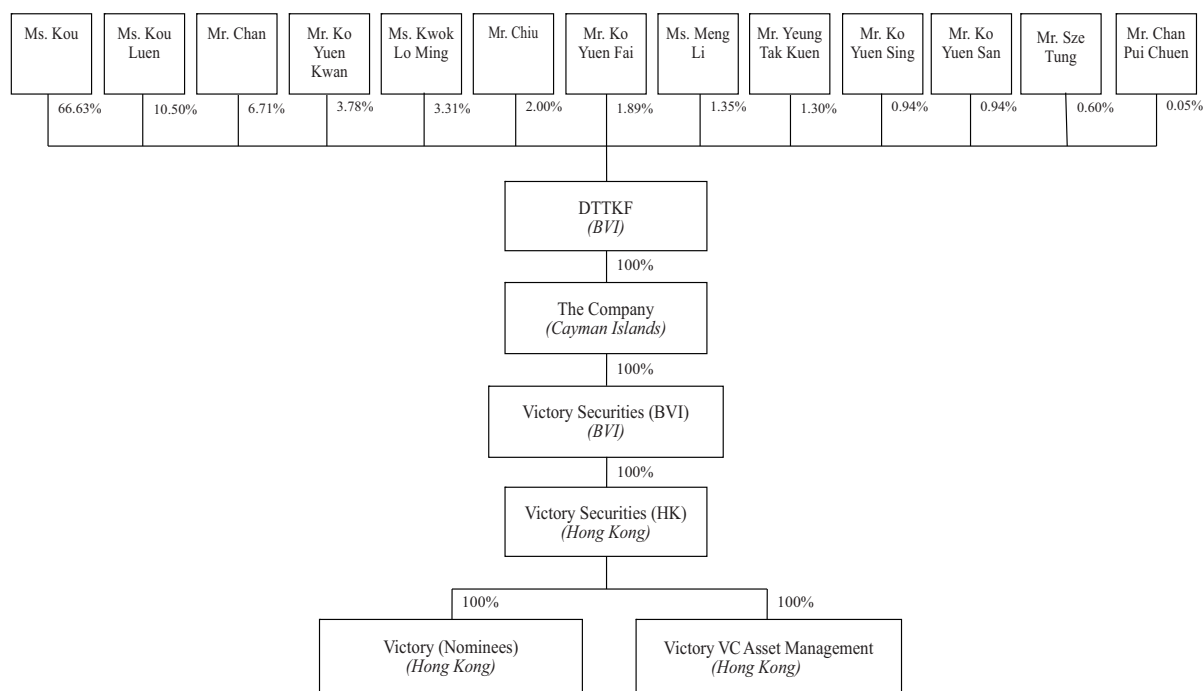
HISTORY, DEVELOPMENT AND REORGANISATION

- (c) On 4 September 2015, Victory Securities (BVI) was incorporated in BVI with limited liability. Victory Securities (BVI) is authorised to issue a maximum of 50,000 shares with a par value of US\$1.00. On the date of incorporation of Victory Securities (BVI), 1 share was allotted and issued as fully paid to initial nominee subscriber at par, and was transferred to our Company on 22 August 2016 at par; 49,999 Shares were also issued and allotted as fully paid to our Company on 22 August 2016 at par. Victory Securities (BVI) was set up to be an intermediate holding company and held the entire issued share capital of Victory Securities (HK).
- (d) On 25 May 2017, DTTKF increased its authorised share capital from 100,000,000 shares of a single class with a par value of US\$0.0005 to 200,000,000 shares of a single class with a par value of US\$0.0005.
- (e) On 25 May 2017, Ms. Kou, Ms. Kou Luen, Mr. Chan, Mr. Chiu, Mr. Ko Yuen Fai, Mr. Ko Yuen Kwan, Mr. Ko Yuen San, Mr. Ko Yuen Sing, Ms. Kwok Lo Ming, Ms. Meng Li, Mr. Sze Tung, Mr. Yeung Tak Kuen and Mr. Chan Pui Chuen (together as vendors) entered into an agreement with Victory Securities (BVI) (as purchaser), DTTKF and our Company, pursuant to which Ms. Kou, Ms. Kou Luen, Mr. Chan, Mr. Chiu, Mr. Ko Yuen Fai, Mr. Ko Yuen Kwan, Mr. Ko Yuen San, Mr. Ko Yuen Sing, Ms. Kwok Lo Ming, Ms. Meng Li, Mr. Sze Tung, Mr. Yeung Tak Kuen and Mr. Chan Pui Chuen shall transfer 66,625,000 shares, 10,500,000 shares, 6,709,500 shares, 2,000,000 shares, 1,890,000 shares, 3,780,000 shares, 945,000 shares, 945,000 shares, 3,307,500 shares, 1,350,000 shares, 600,000 shares, 1,300,000 shares and 48,000 shares of Victory Securities (HK), respectively, which together represent the entire issued share capital of Victory Securities (HK), to Victory Securities (BVI) in consideration of DTTKF allotting and issuing 66,625,000 shares, 10,500,000 shares, 6,709,500 shares, 2,000,000 shares, 1,890,000 shares, 3,780,000 shares, 945,000 shares, 945,000 shares, 3,307,500 shares, 1,350,000 shares, 600,000 shares, 1,300,000 shares and 48,000 shares of DTTKF to Ms. Kou Kuen, Ms. Kou Luen, Mr. Chan Ying Kit, Mr. Chiu Che Leung Stephen, Mr. Ko Yuen Fai, Mr. Ko Yuen Kwan, Mr. Ko Yuen San, Mr. Ko Yuen Sing, Ms. Kwok Lo Ming, Ms. Meng Li, Mr. Sze Tung, Mr. Yeung Tak Kuen and Mr. Chan Pui Chuen, respectively, all credited as fully paid up in the capital of DTTKF. The share swap has been completed on 25 May 2017. As a result of the said share transfer, Victory Securities (HK) became a wholly-owned subsidiary of Victory Securities (BVI).
- (f) On 14 September 2017, the authorised share capital of our Company was increased from US\$50,000 divided into 100,000,000 shares each with a par value of US\$0.0005 to the aggregate of US\$50,000 and HK\$390,000 by creation of an additional 39,000,000 shares each with a par value of HK\$0.01. On the same date, our Company allotted and issued 19,500 shares of HK\$0.01 par value each to DTTKF, immediately followed by the repurchase of 50,000 shares each with a par value of US\$0.0005 each held by DTTKF. On the same date, the authorised but unissued share capital of our Company was reduced by cancellation of 100,000,000 shares of US\$0.0005 par value each, such that the authorised share capital of our Company became HK\$390,000 divided into 39,000,000 Shares of HK\$0.01 par value each.

HISTORY, DEVELOPMENT AND REORGANISATION

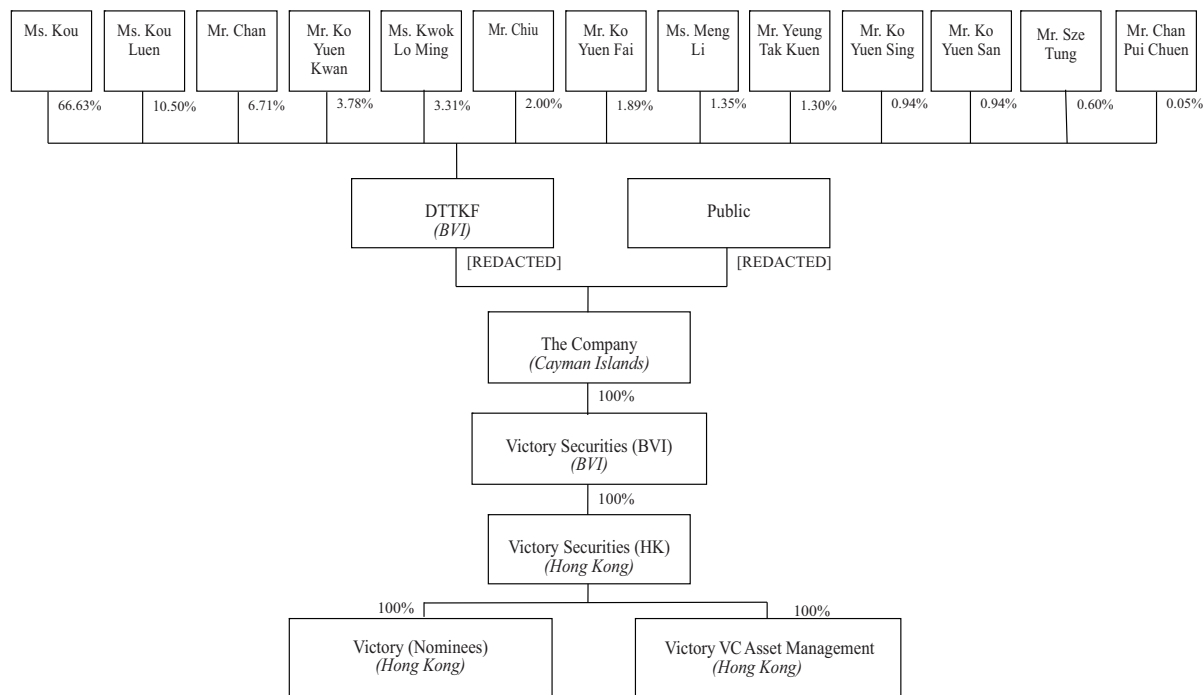
On 30 November 2016, we obtained approval from the SFC for each of DTTKF, our Company and Victory Securities (BVI) to become the substantial shareholders of Victory Securities (HK) under the Reorganisation. Save for the said approval from the SFC, no other regulatory approval is required for the Reorganisation.

The following diagram illustrates the shareholding and corporate structure of our Group immediately after the Reorganisation and before completion of the Capitalisation Issue and the [REDACTED]:



HISTORY, DEVELOPMENT AND REORGANISATION

The following diagram illustrates the shareholding and corporate structure of our Company immediately following completion of the Capitalisation Issue and the [REDACTED] (but without taking into account any Shares which may be issued upon the exercise of the [REDACTED] and any options which may be granted under the Share Option Scheme):



BUSINESS

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.

We were [REDACTED] in terms of share of the total market turnover of all Stock Exchange Participants by the Stock Exchange for the three months ended 31 March 2018, and we were ranked as a [REDACTED] participant for the year ended 31 December 2017. 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 we are resuming our 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.

BUSINESS

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 paragraph 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

BUSINESS

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

BUSINESS

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” 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」) 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 for Banking & Finance Corporations (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 “The Best Securities Firm (management) in 2007/2008 Hong Kong Best

BUSINESS

Securities Selection” (《香港最佳證券評選》香港最佳管理券商) organised by the Hong Kong Commercial Daily in 2009 and “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 organised by Metro Prosperity (都市盛世) 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 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」) by Metro Prosperity (都市盛世) in 2011.

BUSINESS STRATEGIES

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% and 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

BUSINESS

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.

BUSINESS

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.

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 paragraph headed “Business — Risk management and internal control — Risk management relating to our financing business” in this document.

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.

BUSINESS

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.

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 are resuming our 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\$300,000 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.

BUSINESS

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 are resuming our 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 out 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	<u>717</u>	<u>2.4</u>	<u>2,228</u>	<u>3.9</u>
Total	<u><u>30,235</u></u>	<u><u>100.0</u></u>	<u><u>56,433</u></u>	<u><u>100.0</u></u>

BUSINESS

(i) Securities broking services

Our securities broking services comprise mainly brokerage services and placing services. The table below sets out 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
- Funds: listed funds, authorised funds, other funds in the market and ETFs.

BUSINESS

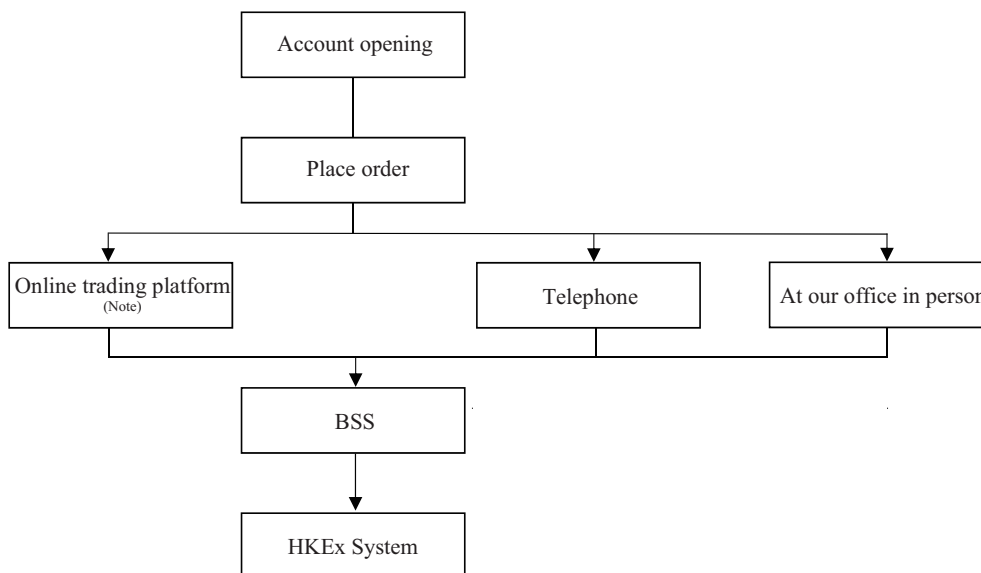
The table below sets out the breakdown of our commission and brokerage income by securities classes for the years indicated:

	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>20,156</u>	<u>100.0</u>	<u>35,406</u>	<u>100.0</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 paragraph 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 paragraph headed “Business — Risk management and internal control — Risk management and internal control measures for our securities brokerage business — Accounts opening” in this document.

BUSINESS

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.

BUSINESS

For the years ended 31 December 2016 and 2017, commission and brokerage income generated from Referred Accounts of our self-employed account executives and licensed employees (exclusive of staff dealings) were HK\$10.9 million and HK\$15.7 million, respectively, which accounted for 54.1% and 44.4% of our total commission and brokerage income, or 45.7% and 33.5%, respectively, of our total revenue generated from our securities broking services.

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. We paid commission expenses of HK\$3.7 million and HK\$5.9 million to self-employed account executives and licensed employees for the years ended 31 December 2016 and 2017, 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 out 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 out 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;

BUSINESS

- Self-employed account executives will be solely responsible for all bad debts incurred by his or her clients, if any;
- 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.

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 for the years ended 31 December 2016 and 2017, 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 paragraph 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. For the years ended 31 December 2016 and 2017, commission and brokerage income generated from staff dealing were HK\$0.2 million and HK\$0.2 million, which accounted for 0.8% and 0.3%, respectively, of our total revenue generated from our securities broking services, which were immaterial.

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

BUSINESS

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.

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

Commissions and fees:	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 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.
Our responsibilities:	We shall avail to public clients the custody, brokerage and business services offered by the external brokers; We shall make available to public clients through our website, information and services offered by external brokers; and 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.
Role and responsibilities of external broker:	Perform the custody, brokerage and business services for us; Use the degree of care and skill as is customary in the relevant market in performing such services; Ensure information provided by it is accurate, true and not misleading; and 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.

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.

BUSINESS

The table below sets out 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 out 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

BUSINESS

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 normally not 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 of securities, broking transaction, in the past twelve months).

BUSINESS

The table below sets out the movement of number of our client accounts for the years indicated:

	As at or for the year ended	
	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 ¹	8,177 ²
Number of active client accounts at the end of the year	1,279 ³	1,613 ⁴

Notes:

1. Of all clients, 1,000 clients maintained more than one client account.
2. Of all clients, 1,054 clients maintained more than one client account.
3. Active client accounts at the end of 2016 attributable to 1065 active clients
4. Active client accounts at the end of 2017 attributable to 1360 active clients

The table below sets out 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	
	Active	Total	Active	Total
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 out 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			
	Active	(%)	Total	(%)	Active	(%)	Total	(%)
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>

BUSINESS

The table below sets out 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 out 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.

BUSINESS

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.

BUSINESS

(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 out 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	<u>38</u>	<u>0.7</u>	<u>153</u>	<u>2.1</u>
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 must maintain a margin account with us to obtain our margin financing. We provide margin financing for margin account clients who pledge securities collaterals with us.

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, this includes Ms. Kou who is our chief executive officer and Mr. Chiu who is our chief operating officer.

BUSINESS

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 limit 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.

BUSINESS

The table below sets out 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 ⁽¹⁾ of the securities pledged to us as at the relevant year end (<i>HK\$'000</i>)	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 margin loan balances granted ⁽⁵⁾ during the relevant year (<i>HK\$'000</i>)	15,840 to 80,091	66,494 to 100,928
Range of day-end loan-to-margin ratios ⁽⁶⁾ during the relevant year	53.9% to 107.6%	77.2% to 115.1%
Range of day-end loan-to-value ratios ⁽⁷⁾ during the relevant year	16.9% to 35.3%	25.7% to 34.3%
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 paragraph 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 day-end margin loan balances granted at the end of any given trading day during the indicated year.
- (6) This refers to the range of actual loan-to-margin ratio at the end of any given trading day during the indicated year.
- (7) This refers to the range of actual loan-to-value ratio at the end of any given trading day during the indicated year.

BUSINESS

The table below sets out 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 — housewife	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 — self-employed	December 2004	3,213	4.0%	Blue-chip and securities of Hong Kong listed issuers (non-blue-chip)
3	Margin client C	PRC individual — retiree	August 2005	3,086	3.9%	Securities of Hong Kong listed issuers (non-blue-chip)
4	Margin client D	Hong Kong individual — self-employed	August 2010	2,726	3.4%	Securities of Hong Kong listed issuers (non-blue-chip)
5	Margin client E	Hong Kong individual — housewife	January 2005	2,363	2.9%	Securities of Hong Kong listed issuers (non-blue-chip)
Total:				<u>15,346</u>	<u>19.1%</u>	

BUSINESS

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 — director	July 2003	5,166	5.4%	Blue-chip
2	Margin client G	PRC individual — self-employed	March 2005	4,996	5.2%	Securities of Hong Kong listed issuers (non-blue-chip)
3	Margin client E	Hong Kong individual — housewife	January 2005	4,137	4.3%	Securities of Hong Kong listed issuers (non-blue-chip)
4	Margin client H	PRC individual — self-employed	November 2017	4,011	4.2%	Securities of Hong Kong listed issuers (non-blue-chip)
5	Margin client B	Hong Kong individual — self-employed	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%. In such cases, we will have our own assessment of the lending ratio based on its market capitalisation, 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. The Margin Financing Approver will take into account factors including, among others, the relationship with the client, the client's creditworthiness, prevailing market conditions and market capitalisation, 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.

BUSINESS

The table below sets out 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, 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 relax this restraint 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.

BUSINESS

The table below sets out 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>

Note:

1. Market capitalisation calculated as at the date indicated.

As at 31 December 2016, the largest category 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 largest category 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 percentages of securities of companies listed on overseas stock exchanges pledged as collateral were 0.8% and 3.0% respectively.

BUSINESS

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 out 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	

BUSINESS

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	

BUSINESS

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 2019	Guaranteed by Ms. Kou	Review fee of HKD20,000

BUSINESS

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 monitor our margin accounts as follows:

Loan-to-value ratio¹

In the case of either (a) the collateral has a lending ratio of over 50%, and the loan-to-value ratio firstly reaches above 60%;

or (b) the collateral has a lending ratio of not more than 50%, and the loan-to-value ratio firstly reaches above 50%;

In the case of either (a) the collateral has a lending ratio of over 50%, and the loan-to-value ratio further reaches above 70%;

or (b) the collateral has a lending ratio of not more than 50%, and the loan-to-value ratio further reaches above 60%;

In the case of either (a) the collateral has a lending ratio of over 50%, and the loan-to-value ratio finally reaches above 80%, or during stock market crash;

or (b) the collateral has a lending ratio of not more than 50%, and the loan-to-value ratio finally reaches above 70%, 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 3:30 p.m. the latest within the same day failing which our dealing department will execute the forced sale of the underlying collateral.

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.

BUSINESS

We had made in aggregate 228 and 208 margin calls to clients during the years ended 31 December 2016 and 2017, respectively. We had not made any provisions for bad debts in relation to financing services during the Track Record Period.

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% or 50%, depending on the lending ratio of the collateral. 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.

BUSINESS

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%

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, especially when they are calculated 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 different listed securities pledged as collateral in each margin account.

During the Track Record Period and up to 30 April 2018, there were instances where the day-end loan-to-value ratios of margin accounts exceeded 70% or 60%, depending on the lending ratio of the collateral (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

BUSINESS

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 30 April 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\$1.2 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 30 April 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% 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 exceed the assigned ratio, 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 paragraph 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 paragraph headed “Business — Risk management and internal control — Risk management relating to our financing business” for further details of our risk management measures.

BUSINESS

(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.

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 out 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>	<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	—	—	2
Number of asset management client accounts closed during year/period	—	(7)	(1)	(2)	(1)	(2)
Number of asset management clients at the end of the year/period	20	6	20	4	19	4
Average term of the asset management service agreements (as at the year/period end) (years)	3.4	2.6	3.9	2.1	4.3	1.4
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	2.1
Number of asset management clients that renewed their accounts during year/period	1	2	5	2	1	—
Average remaining term of renewing asset management clients (as at the year/period end) (years)	3.1	0.7	1.2	0.6	0.4	N/A ^{Note}

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

BUSINESS

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 building 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 managed by such immigration agencies and promote our asset management services to them, whereas we can add value by referring clients who require immigration consultancy services to such agencies. We intend to pursue closer relationships with a variety of immigration agencies to enhance our market reach to potential CIES applicants.

Our Directors also 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. In addition, we have been using various marketing channels to establish our brand name within the financial services industry such as advertisements on TV and public transport which aimed at increasing the exposure of our Group to the public as well as potential CIES clients. The [REDACTED] status will also help build confidence among potential CIES clients as compared to local private companies.

BUSINESS

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\$6.5 million each, all of which are expected to expire on 18 August 2018 and 31 October 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 “Prime Awards for Banking & Finance Corporations — The Best Wealth Management Golden Award” (都市盛世銀行及金融服務企業獎)的最佳財富管理金獎) in 2014, “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) in 2013 by Metro Prosperity (都市盛世), “The Best Performance Company Awards

BUSINESS

2010” (優質資產管理) by Capital Weekly (資本一周) and “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)) 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 employees 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 out 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.

BUSINESS

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 (<i>HK\$'000</i>)	263	625
Percentage of our securities broking services revenue	1.1%	1.3%
Financing services revenue (<i>HK\$'000</i>)	153	520
Percentage of our financing services revenue	2.7%	7.2%
Asset management services revenue (<i>HK\$'000</i>)	7	—
Percentage of our asset management services revenue	1.0%	—
Total (<i>HK\$'000</i>)	<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, we have no major suppliers and 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. We engage certain IT vendors which facilitate the operation of our trading platform and the provision of securities market information and price quotations.

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.

BUSINESS

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.

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.

BUSINESS

The number of our Responsible Officers for our Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) 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 out 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.

BUSINESS

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

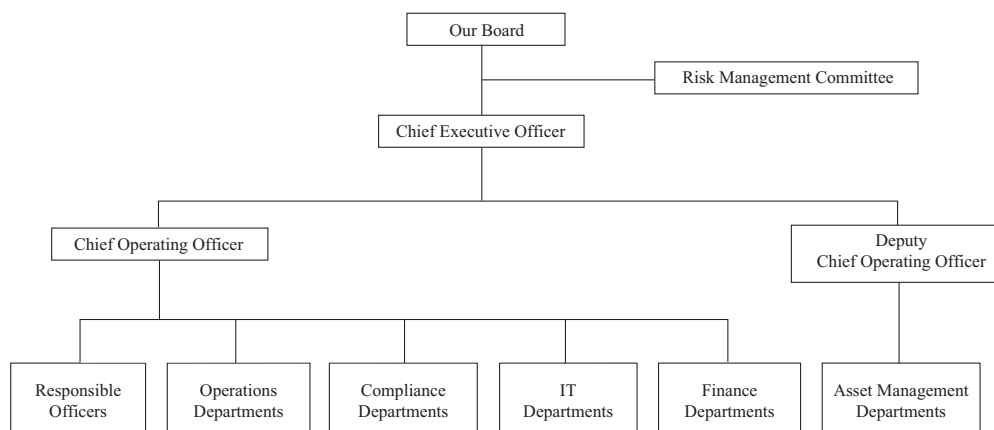
BUSINESS

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.

BUSINESS

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.

BUSINESS

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 paragraph headed “Business — Risk management and internal control — Risk management and internal control measures for our securities brokerage business — Accounts opening” in this document;

BUSINESS

- 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.

BUSINESS

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;

BUSINESS

- 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.

BUSINESS

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 paragraph 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.

BUSINESS

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.

BUSINESS

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 paragraph 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.

BUSINESS

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 above in the section headed “Business — Risk management and internal control — Risk management and internal control measures for our securities brokerage business — Transaction monitoring” in this document which also detects unusual or irregular trading activities of our self-employed account executives.

BUSINESS

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 analyst from our chief investment office 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 paragraph headed “Business — Our business model — (ii) Financing services” in this document for more details.

BUSINESS

- 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 paragraph 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 paragraph 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.

BUSINESS

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 paragraph 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 paragraphs 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.

BUSINESS

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;

BUSINESS

- 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)
- Recognised 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.

BUSINESS

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.

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. Additional, 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.

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.

BUSINESS

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.

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

BUSINESS

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;
 - (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

BUSINESS

- (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.

Information technology risk management

We have in place information security policy and rules which control 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.

BUSINESS

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.

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 scope of the internal control review conducted by our internal control advisor covered Victory Securities (HK)’s business generally and in particular focused on the following areas of its business (i) client admittance and custody of customer assets; (ii) deal administration and compliance; (iii) margin loan and compliance; (iv) revenue recognition; (v) treasury and investment; (vi) purchase requisition and payment; (vii) human resources and payroll; (viii) financial statement closing and disclosure; (ix) IT general controls; and (x) asset management. The scope of the internal control review conducted by our internal control advisor in February 2018 covered Victory Securities (HK)’s AML policies and counter-party risk. 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.

BUSINESS

Major findings	Recommendations	Remedial measures taken
<p>1.2 Victory Securities (HK) have yet to establish formalised policy and procedures to address the following:</p> <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.	<p>Victory Securities (HK) should establish a formal policy to define</p> <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.	<p>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.</p>

2. *Asset Management*

Major findings	Recommendations	Remedial measures taken
<p>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.</p>	<p>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.</p>	<p>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.</p>
<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>

BUSINESS

Major findings	Recommendations	Remedial measures taken
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.	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.	The allocation basis has been incorporated in the asset management manual in October 2017. Effective from October 2017, the shares are 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.

3. *Investment in shares*

Major findings	Recommendations	Remedial measures taken
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.	Victory Securities (HK) should <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.	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. 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.

Victory Securities (HK) did not receive any major findings or recommendations from the internal control advisor after the completion of the follow-up review in March 2018.

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.

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.

BUSINESS

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.

At the material time, Victory Securities (HK) was carrying out a system conversion from DOS application to Windows application, and it relied on manual checking on reconciliation reports during the period. Upon completion of the system conversion in 2004, Victory Securities (HK) was able to generate mismatch report automatically and reoccurrence of the breach due to human error would be unlikely. Ms. Kou did not receive any benefit from the breach nor was there any allegation that she benefited from it and her integrity was never called into question.

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

The Sole Sponsor considers that Ms. Kou is suitable and able to perform her role as an executive Director under Rules 5.01 and 5.02 of the GEM Listing Rules on the following bases: (i) The breach is a strict liability offence. There is no issue on Ms. Kou’s integrity in the incident; (ii) The SFC acknowledged the following positive actions taken by Ms. Kou and Victory Securities (HK) in its press release dated 28 March 2006: (a) Ms. Kou and Victory Securities (HK) pleaded guilty to the breach in SFC’s prosecution; (b) No loss to Victory Securities (HK)’s clients from the breach; (c) The remedial actions taken by Victory Securities (HK) to strengthen its internal controls; and (d) Their clean disciplinary record; (iii) Neither Victory Securities (HK) nor Ms. Kou had been subject to disciplinary action by the SFC as a licensed corporation or licensed person/responsible officer, respectively, after the breach and up to the Latest Practicable Date;

The SFC’s remarks on Ms. Kou’s fitness and properness only refer to the particular incident at the relevant time of the breach in 2003. By the mere fact that Ms. Kou has satisfied and continued to satisfy the SFC that she is a fit and proper person to carry out regulated activities as a licensed responsible officer under the SFO save the one-month suspension back in 2006 for the breach happened almost 15 years ago, Ms. Kou has demonstrated that she has learned invaluable lessons from the breach and the importance of compliance with the relevant regulations and laws, as well as an adequate and effective internal control system. The Sole Sponsor considers that the SFC no longer has any questions over Ms. Kou’s fitness and properness. Further, Ms. Kou has clearly demonstrated through her responsible attitude and genuine cooperation shown in the SFC investigation of the breach that she is a person of responsibility, character and integrity, and she was willing to bear primary responsibility for the breach and put in extra efforts and diligence to improve and strengthen the internal control system of Victory Securities (HK).

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. The SFC would issue no comment letters once it was satisfied that Victory Securities (HK) had taken appropriate rectification actions and/or enhancement actions in response to SFC comments and/or recommendations. In the event Victory Securities (HK) does not adequately take rectification actions and/or internal control enhancement actions in response to SFC comments and/or recommendations respectively, the SFC may initiate disciplinary actions against Victory Securities (HK) and in extreme cases, its licences may be revoked or suspended. For further details, please refer to the paragraph headed “Risk factors — We are subject to extensive regulatory requirements. Non-compliance with such requirements could cause us to incur fines, restriction on our activities or even suspension or revocation of some or all of our licences for carrying on our business activities may materially and adversely affect our operation in this document.

BUSINESS

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.

Internal control enhancement

Comments from the SFC

(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.

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.

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). SFC noted a potential risk should client default in settlement in the wake of any adverse and shift market adjustment.

Our internal control enhancement actions

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.

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).

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.

(i) Non-compliance with relevant rules and regulations

Comments from the SFC

Our rectification actions

(1) 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 generate two rounds of daily stock account transfer instructions ("ATI"), one at the open of trading hours and the other one at the close of trading hours to comply with section 5 of the CSR. Since late 2007, stock ATI was automated by our back-office system. We also 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.

(2) 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 the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules ("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 contract.

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.

BUSINESS

Comments from the SFC

Our rectification actions

(3) 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. SFC reminded Victory Securities (HK) to ensure compliance with sections 3(1)(a)(v) of the Securities and Futures (Keeping of Records) Rules ("KRR") and that effective procedures and review mechanism are put in place so that any errors and/or omissions are promptly detected and acted upon.

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.

(4) Segregation of client monies

SFC noted that client money segregation was calculated manually with no management review and reconciliation. This might result in segregation errors which could not be timely detected and no audit trail was available for management's follow-up. 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")

The instances of under-/over- segregation were due to manual transfers of client monies between Victory Securities (HK) and the trust account. Since 2007, the process was automated by our back office system and 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.

(5) 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 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

(6) 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:

- 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

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.

(ii) Internal control enhancement

Comments from the SFC

Our internal control enhancement actions

(1) Financial Returns

SFC noted errors in our financial returns as at 30 September 2006 resulting in misstatement of liquid capital of Victory Securities (HK). 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.

(2) Delivery of daily statement of account

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.

BUSINESS

Comments from the SFC

Our internal control enhancement actions

(3) 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 KRR to avoid any miscommunication or dispute between Victory Securities (HK) and its clients concerning trade orders and to protect the interests of parties concerned.

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

(4) 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. SFC noted that Victory Securities (HK) should implement proper procedures to follow up on uncollected mails to avoid undetected errors or abuses which may expose Victory Securities (HK) or its clients to inappropriate risk.

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.

(5) 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.

BUSINESS

Comments from the SFC

Our internal control enhancement actions

(6) 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. SFC noted that these controls might not be sufficient to timely detect and prevent any errors or abuses which might expose Victory Securities (HK) and its clients to inappropriate risk.

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

(7) 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. This might result in untimely detection of any unauthorised change to client address.

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. SFC also noted that client information database is critical information that should be subject to stringent controls and safeguards.

(8) 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.

SFC also noted that client database is critical and should be subject to stringent controls and safeguard. The existence of errors in client database may result in undetected errors or may be susceptible to abuses which may expose Victory Securities (HK) or its clients to inappropriate risks.

BUSINESS

December 2012

During the limited scope reviews 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:

(i) Non-compliance with relevant rules and regulations

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) 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.

BUSINESS

(ii) Internal control enhancement

Comments from the SFC

Our internal control enhancement actions

(1) 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.

- (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.

BUSINESS

Comments from the SFC

(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.

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

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.

(2) 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 internal control enhancement actions

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

- 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; and
- Victory Securities (HK) closed its master and sub-accounts with the external broker in November 2013.

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.

BUSINESS

Comments from the SFC

Our internal control enhancement actions

(3) 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 CNR.

(4) 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 CNR.

(5) Omission of client securities from stock ledgers

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

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.

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 KRR. Victory Securities (HK) should also ensure accurate reporting of figures in the financial resources return submitted to the SFC.

BUSINESS

Comments from the SFC

Our internal control enhancement actions

(6) 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 CNR.

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

December 2017

Following a limited scope review 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. No material penalty or condition was imposed by the SFC on Victory Securities (HK) following the limited scope review in December 2017. Set out below is the summary of the comments from the SFC and our rectification actions taken in respect of their comments:

(i) Non-compliance with relevant rules and regulations

Comments from the SFC	Recommendations from the SFC	Our rectification actions
<p>(1) Safeguard of client assets</p> <p>(a) Trust account reconciliation</p> <p>SFC noted that Victory Securities (HK) had over-segregated client monies in client trust accounts held outside Hong Kong. This was not in compliance with section 10 of the CMR.</p>	<p>Notwithstanding Victory Securities (HK) had subsequently properly rectified the issue, Victory Securities (HK) should ensure proper segregation of client monies and compliance with the CMR and client positions or assets, including those kept with external brokers are adequately safeguarded and properly and promptly accounted for.</p>	<p>Victory Securities (HK) now downloads full reports from its external brokers on a daily basis to ensure that client monies kept with external brokers are accounted for properly and promptly and has revised its policy.</p>
<p>(2) 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. SFC noted that such practice may give rise to conflicts of interest and concerns of whether orders of client accounts were always given priority over orders of the employee's own account.</p>	<p>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 minimise 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). Otherwise, 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>

BUSINESS

Comments from the SFC	Recommendations from the SFC	Our rectification actions
<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. Besides, 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 management of compliance 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>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>The above were not in compliance with paragraph 12.2(b) and 9.1 of the Code of Conduct.</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 minimised and under control.</p>
<p>(3) Anti-money laundering and counter-terrorist financing (“AML/CFT”)</p>		
<p>(a) Suspicious transaction reporting</p>		
<p>Suspicious transactions identified by Victory Securities (HK)’s staff and reported to the money laundering reporting officer were summarised 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>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>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>
<p>This was not in compliance with paragraphs 7.25 and 7.31 of the AML Guideline.</p>		

BUSINESS

(ii) Internal control enhancement

Comments from the SFC	Recommendations from the SFC	Our internal control enhancement actions
<p>(1) Safeguard of client assets</p> <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>(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 authorise ISI transactions.</p>	<p>Victory Securities (HK) should perform stock reconciliation at the CCASS sub-account level to ensure that client securities and securities collateral are properly segregated into the respective designated accounts as soon as reasonably practicable in accordance with the regulatory requirement.</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 needs basis and are set in such a way as to ensure proper checks and balances are present.</p> <p>SFC noted that Victory Securities (HK) had enhanced its control by requiring clients to sign on the deposit slip or the settlement staff would call up the client for verifying the deposit. The SFC reminded Victory Securities (HK) to set up and maintain appropriate procedures for clients to promptly advise the back office staff directly instead of the front office staff regarding deposits into its designated bank 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>Victory Securities (HK) subsequently rectified the issue by revising chief operating officer's right and 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 authorised for executing the duties on ATIs.</p> <p>Victory Securities (HK) subsequently revised its policy and procedures in handling client fund deposits. Both maker and checker for client fund deposit 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>(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. Without proper internal controls and segregation, the operations of the Victory Securities (HK) and its clients may be at risk from financial losses arising from theft, fraud and other dishonest acts, conflicts, errors or abuses.</p>		
<p>(3) Information on Statements of Account</p> <p>SFC noted that the statements of account (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>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 of stock scrip from the client.</p>

BUSINESS

Comments from the SFC	Recommendations from the SFC	Our internal control enhancement actions
<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) which were not allowed in practice.</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 and Victory Securities (HK) relied on the execution broker to monitor the transactions of the US listed securities.</p>	<p>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 before approval, and keep proper documentation on the information obtained and the evaluation result. 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 specific amount; (c) limiting client securities deposited with each external broker to specific amount; (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 on daily basis; and (g) reviewing reports of trades conducted by high volume traders on a daily basis to detect abnormal trading.</p>
<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 authorisations; and (ii) no record was maintained on the underlying rationale of the investment recommendations made to the clients.</p>	<p>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>Depending on the mode of operations of Victory Securities (HK) and specific agreement with a client, if and agreed mandate or a predefined model investment portfolio is established by the client, a licensed person should ensure that the mandate or portfolio established is suitable for the client based on the information about the client’s personal circumstances. Otherwise, a licensed person is required to follow the documentation requirements set out in the “Frequently Asked Questions on Compliance with Suitability Obligations” (issued on 23 December 2016) for compliance with the suitability obligations.</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 authorisation. 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 authorised staff during the course of authorisation. The addendum also contains a termination clause of the authority by the client.</p>

BUSINESS

Comments from the SFC	Recommendations from the SFC	Our internal control enhancement actions
<p>(6) Asset management accounts</p> <p>Victory Securities (HK) allowed its clients to grant authority to it to operate the respective 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>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>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 advised to be 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>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>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 daily/monthly statement and quarterly report to the asset management clients and whether such deviation is suitable. Asset management department is now obliged to follow the subsequently revised policy to assess 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) made margin calls when loan-to-collateral ratio exceeded a certain level and did not take into account the liquidity and volatility of underlying stocks and other relevant risk factors.</p> <p>SFC also noted that there were some rolling balance cash clients with debit balance exceeded the maximum debit balance allowed under Victory Securities (HK)’s operation manual.</p>	<p>Victory Securities (HK) should critically review its margin call policy and procedures 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.</p> <p>It had also subsequently revised its policy and procedures and requires the chief operation officer and compliance officer to approve debit balance exceeding certain amount by having considered the firm’s knowledge on the client’s background, credit history and securities held in the client’s trading account.</p>
<p>(8) AML/CFT</p> <p>(a) Customer due diligence</p> <p>SFC noted from its sample review that Victory Securities (HK) had not obtained a company search report or similar report within six months from the account opening date to verify information of a locally incorporated client, so as to verify the names of the directors and the company’s registered office address.</p>	<p>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>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

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.

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.

BUSINESS

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.

EMPLOYEES

As at the Latest Practicable Date, we had 36 employees, who are working in Hong Kong. The table below sets out 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	7
Asset management and market research	7
Sales and marketing	1

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. 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.

BUSINESS

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 paragraph headed “Our business model — (i) Securities broking services — (a) Brokerage 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 14 June 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”
Victory Securities Co., Ltd.
(Participant of The Stock Exchange of HK Ltd.)”. 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)

BUSINESS

Award Year	Awards/Recognition	Awarding Institution/ Authority
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)
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)

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Capitalisation Issue and the [REDACTED] (without taking into account any Shares which may be issued upon the exercise of the [REDACTED] and any options which may be granted under the Share Option Scheme), our Company will be owned as to [REDACTED] by DTTKF. DTTKF is owned as to approximately 66.63%, 10.50%, 6.71%, 2.00%, 1.89%, 3.78%, 0.94%, 0.94%, 3.31%, 1.35%, 0.60%, 1.30% and 0.05% by Ms. Kou, Ms. Kou Luen, Mr. Chan, Mr. Chiu, Mr. Ko Yuen Fai, Mr. Ko Yuen Kwan, Mr. Ko Yuen San, Mr. Ko Yuen Sing, Ms. Kwok Lo Ming, Ms. Meng Li, Mr. Sze Tung, Mr. Yeung Tak Kuen and Mr. Chan Pui Chuen, respectively. As DTTKF and Ms. Kou will be directly or indirectly entitled to exercise or control the exercise of 30% or more of the voting power at the general meetings of our Company immediately following the [REDACTED], each of DTTKF and Ms. Kou shall be regarded as a Controlling Shareholder under the GEM Listing Rules.

In addition, on the basis that Ms. Kou Luen, Mr. Chan, Mr. Chiu, Mr. Ko Yuen Fai, Mr. Ko Yuen Kwan, Mr. Ko Yuen San, Mr. Ko Yuen Sing, Ms. Kwok Lo Ming, Ms. Meng Li, Mr. Sze Tung, Mr. Yeung Tak Kuen and Mr. Chan Pui Chuen (the “**Other DTTKF Shareholders**”) together with Ms. Kou hold their respective interest in our Company through a common investment holding company, namely, DTTKF, the Other DTTKF Shareholders are regarded as a group of Controlling Shareholders of our Company together with Ms. Kou and DTTKF.

Further, on 22 May 2017, all shareholders of DTTKF and DTTKF entered into the DTTKF Shareholders Agreement. Set out below is the summary of the material terms and conditions of the DTTKF Shareholders Agreement:

- (i) except with the unanimous written approval of all the shareholders of DTTKF, no action shall be taken or resolution shall be passed by the board of DTTKF or by DTTKF in respect of certain matters relating to the operation of DTTKF;
- (ii) if any of the shareholders of DTTKF (other than Ms. Kou) (the “**Selling Shareholder**”) proposes to transfer any shares or any interest in DTTKF, Ms. Kou shall have a right of first refusal with respect to such transfer;
- (iii) if Ms. Kou has not elected to purchase all of the shares of DTTKF proposed to be transferred to her (the “**Sale Shares**”) by the Selling Shareholder, DTTKF shall repurchase the Sale Shares from the Selling Shareholder and transfer the corresponding number of Shares of our Company owned by DTTKF (which shall be calculated with reference to the following formula) to the Selling Shareholder as consideration for the repurchase of the Sale Shares:

$$\frac{\text{Total number of Sale Shares}}{\text{Total number of issued shares of DTTKF}} \times \text{Total number of Shares of our Company owned by DTTKF}$$

- (iv) the shareholders of DTTKF agree that they shall, and they shall procure DTTKF to, comply with all laws and regulations of Hong Kong and BVI and, if applicable, the GEM Listing Rules.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

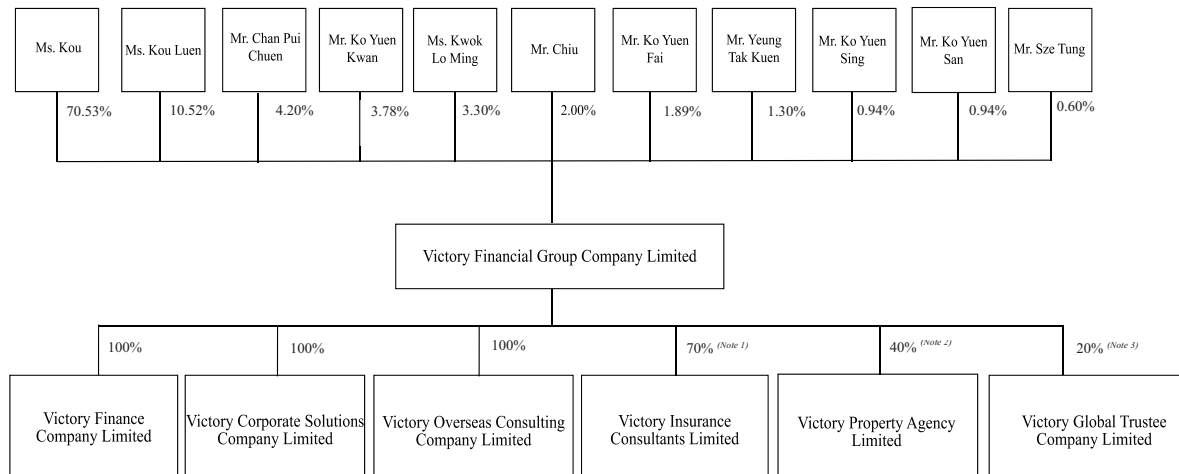
For details of the background of each of our Controlling Shareholders, please refer to the sections headed “History, Development and Reorganisation” and “Directors, Senior management and Staff” in this document.

OTHER BUSINESS CONTROLLED BY CONTROLLING SHAREHOLDERS

During the Track Record Period, Victory Securities (HK) owned 420,000 shares of Victory Financial Group Company Limited constituting 4.2% of its total issued share capital. On 3 March 2016, Victory Securities (HK) sold 420,000 shares of Victory Financial Group Company Limited to Mr. Chan Pui Chuen at a consideration of HK\$420,000 with reference to the total paid up value of its issued shares. As a result of the said share transfer, Victory Securities (HK) ceased to own any shareholding interests in Victory Financial Group Company Limited. As at the Latest Practicable Date, Victory Financial Group Company Limited was owned by some of our Controlling Shareholders.

Victory Financial Group Company Limited is an investment holding company and it has four subsidiaries and two associate companies (collectively, the “**Victory Financial Group**”). As confirmed by the Directors, Victory Financial Group recorded a consolidated profit of HK\$1.4 million for the year ended 31 December 2016, based on its audited consolidated financial statements; and a consolidated loss of HK\$0.7 million for the year ended 31 December 2017, based on its management accounts.

The following diagram illustrates the shareholding and corporate structure of Victory Financial Group as at the Latest Practicable Date:



Notes:

1. Loyal Insurance Consultants Limited, an Independent Third Party, owns the remaining 30% of the total issued shares of Victory Insurance Consultants Limited.
2. Mr. Lam Kwai Wah, an Independent Third Party, owns the remaining 60% of the total issued shares of Victory Property Agency Limited.
3. Each of Mr. Ko Yuen Kwan, Mr. Yeung Tak Kuen, Mr. Chiu and Mr. Chan Pui Chuen owns in equal shares of the remaining 80% of the total issued shares of Victory Global Trustee Company Limited.
4. Each of the shareholders of Victory Financial Group Company Limited is a Controlling Shareholder.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Set out below is a summary of the principal business activities of the members of the Victory Financial Group:

Name of the company	Principal business activities
Victory Finance Company Limited	provision of money lending services
Victory Corporate Solutions Company Limited	provision of company incorporation services, company secretarial services and company administration services
Victory Overseas Consulting Company Limited	provision of immigration advice services and overseas education advice services
Victory Insurance Consultants Limited	provision of insurance services including personal insurance, general insurance, group insurance and commercial insurance
Victory Property Agency Limited	provision of property agency services
Victory Global Trustee Company Limited	provision of trustee services for family and corporate trust

While our Group and Victory Finance Company Limited are both engaged in providing finance to clients, set out below is a summary of the major differences between our business and that of Victory Finance Company Limited:

	Our Group	Victory Finance Company Limited
Nature of services provided and financial needs of the clients:	Provision of financial accommodation, which is ancillary to our securities broking services, to our clients who wish to purchase securities on the Stock Exchange or make applications for IPOs	Provision of loans for clients to cater their general financial needs
Types of securities:	Equity and debt securities listed on the Stock Exchange	Properties
Interest rate:	In general, in the range from 1% to 10% per annum during the Track Record Period	In general, in the range from 10% to 18% per annum during the Track Record Period <i>(Note)</i>

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

	Our Group	Victory Finance Company Limited
Regulatory regimes:	Licensed to carry out 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, which are supervised by the SFC	Licensed to carry out business as a money lender under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong), which is supervised by the Commissioner of Police

Note: During the Track Record Period and up to the Latest Practicable Date, Victory Finance Company Limited granted loans to one of its clients at an interest rate of 3.0% per annum and another client at an interest rate of 5.5% per annum. Notwithstanding the said loan transactions, pursuant to the Deed of Non-Competition, our Controlling Shareholders have undertaken that upon [REDACTED], the interest rate offered by Victory Finance Company Limited will not be lower than the interest rate offered by our Group.

The principal business of our Group is the provision of securities brokerage services. The provision of margin financing services is only ancillary to our Group’s securities brokerage services. The provision of loan to our clients is only to facilitate them to purchase securities listed on the Stock Exchange or make applications for IPOs. Our clients can only use the loan granted to them for such specific purposes and our Group can hold the relevant securities as collaterals. On the other hand, Victory Finance Company Limited aims at providing loans for clients to cater for their general financial needs and it usually requires their clients to charge their properties as security for such loans.

During the Track Record Period, the interest rates charged by Victory Finance Company Limited on its loans generally range from 10% to 18% per annum, which are much higher than the margin loan interest rates of 1% to 10% per annum charged by our Group. Our Directors are of the view that, for the sake of saving interests, clients who wish to borrow money for purchasing securities listed on the Stock Exchange or making applications for IPOs would prefer utilising financing services of our Group to obtaining loans from Victory Finance Company Limited.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Given that (i) the nature of our financing services and the financial needs of our clients are different from those of Victory Finance Company Limited; (ii) different types of securities are required by us and Victory Finance Company Limited; (iii) different interest rates are charged by us and Victory Finance Company Limited; (iv) Victory Finance Company Limited and our Group are regulated under different regulatory regimes in Hong Kong; (v) the nature of services provided by our Group is different from that of the other companies of Victory Financial Group; and (vi) only insignificant number of our active clients are also the clients of Victory Financial Group and the services provided to these overlapping clients by Victory Financial Group were money lending, insurance and trustee services (among these overlapping clients, only 4, 5 and 3 out of 1,862, 1,279 and 1,287 of our active clients engaged Victory Financial Group for money lending services), our Directors are of the view that there is a clear business delineation between Victory Financial Group and us and there exists no competition between our Controlling Shareholders and us. The business conducted by Victory Financial Group is a standalone segment which operates independently of our business.

Save as disclosed above, each of our Controlling Shareholders, our substantial shareholders, our Directors and their respective close associates does not have any interest in a business apart from our business which competes or is likely to compete, directly or indirectly, with our business, and would require disclosure pursuant to Rule 11.04 of the GEM Listing Rules.

INDEPENDENCE OF OUR GROUP

In the opinion of our Directors, we are capable of carrying on our businesses independently of, and do not place undue reliance on, our Controlling Shareholders, our substantial shareholders, their respective close associates (including Victory Financial Group) or any other parties, taking into account the following factors:

(i) Financial independence

Our Directors consider that we will be financially independent of our Controlling Shareholders and any of their respective close associates (including Victory Financial Group) upon [REDACTED]. All loans due to our Controlling Shareholders have been fully settled using our internal resources before the Latest Practicable Date, and that all guarantees provided by certain Directors and Controlling Shareholders for our borrowings (for details, please refer to the paragraph headed “Financial Information — Indebtedness” in this document) will be fully released upon the [REDACTED]. Moreover, as at the Latest Practicable Date, we did not have any financing arrangements with Victory Financial Group. Further, we have our own internal control and accounting systems, finance department, independent treasury function for cash receipts and payment and independent access to third-party financing. Our Directors are satisfied that we are capable of conducting our business independently from any of our Controlling Shareholders (and their respective close associates (including Victory Financial Group)) after we are [REDACTED] on the Stock Exchange.

In view of our internal resources and the estimated [REDACTED] from the [REDACTED], our Directors consider that our Group will have sufficient capital for its financial needs. Our Directors further consider that, upon the [REDACTED], we are capable of obtaining financing from external sources independently without the support of our Controlling Shareholders or their respective close associates (including Victory Financial Group).

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

(ii) Operational independence

We have established our own organisational structure, and each department is assigned to specific areas of responsibilities. We are able to operate independently from our Controlling Shareholders and their respective close associates (including Victory Financial Group) after the [REDACTED]. We have also established a set of internal control policies to facilitate the effective operation of our business.

Except for the continuing connected transactions entered into by the relevant connected persons and us as set out in the section headed “Connected Transactions” in this document, our Group has not entered into any connected transaction with any of our Controlling Shareholders and their respective close associates (including Victory Financial Group) that will continue after the [REDACTED].

In addition, we have obtained all necessary licences for our business operation and we have sufficient operational capacity in terms of capital and employees to operate independently from our Controlling Shareholders and their respective close associates (including Victory Financial Group).

(iii) Management independence

We have an independent management team comprising our executive Directors and senior management who have substantial experience in our business. Our management team is able to implement our policies and strategies and performs its roles independently.

We aim at establishing and maintaining a strong and independent Board to oversee our Group’s business. Our Board consists of seven Directors, comprising three executive Directors, one non-executive Director and three independent non-executive Directors. The three independent non-executive Directors have extensive experience in different areas or professions. The main functions of our Board include approving our overall business plans and strategies, monitoring the implementation of these plans and strategies and the overall management of our Group.

We will have three common directors with DTTKF (our Controlling Shareholder), namely Ms. Kou, Mr. Chiu and Mr. Chan. Despite the common directorship, we believe that management independence between DTTKF and us will be maintained as DTTKF is an investment holding company, the only significant business interest of which is our Group.

As at the Latest Practicable Date, there is no overlapping of directors between our Group and Victory Financial Group except that Ms. Chan Pui King (daughter of Ms. Kou and Mr. Chan), who is a director of Victory (Nominees), is also a director of Victory Financial Group Company Limited, Victory Finance Company Limited, Victory Insurance Consultants Limited, Victory Corporate Solutions Company Limited, Victory Global Trustee Company Limited and Victory Overseas Consultant Company Limited. Given that Ms. Chan Pui King does not participate in the day-to-day management of these companies and Victory (Nominees) is a dormant company, our Directors are of the view that our Group is able to operate independently from Victory Financial

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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

Our Board and the senior management operate as a matter of fact independently of our Controlling Shareholders and their respective close associates (including Victory Financial Group) and they are in a position to fully discharge their duties to the Shareholders and us as a whole after the [REDACTED] without reference to our Controlling Shareholders and their respective close associates (including Victory Financial Group).

DEED OF NON-COMPETITION

In connection with the [REDACTED], each of our Controlling Shareholders (collectively, the "Covenantors" and each a "Covenantor") entered into the Deed of Non-Competition with our Company pursuant to which each of the Covenantors has, among other things, irrevocably and unconditionally undertaken with our Company (for itself and as trustee for its subsidiaries), on a joint and several basis, that at any time during the Relevant Period (as defined below), such Covenantor shall not, and shall procure that neither their respective associates nor companies controlled by the Covenantors (other than the members of our Group) will, (i) directly or indirectly, be interested in or involved in or engaged in or acquire or hold any right or interest (in each case whether as a director or shareholder (other than being a director or shareholder of any member of our Group), partner, agent or otherwise) in any form of business, including, whether for profit, reward or otherwise, any joint venture, alliance, cooperation, partnership which competes or is likely to compete directly or indirectly with the business carried on or contemplated to be carried on by our Group from time to time (the "Restricted Activity"); nor provide support in any form to persons other than the members of our Group to engage in business that constitute or may constitute direct or indirect competition with the businesses that our Group is currently and from time to time carrying on; (ii) solicit any existing employee of our Group for employment by him/her/it or his/her/its close associates or companies controlled by him/her/it; (iii) solicit or procure any of the suppliers and/or the customers of our Group from time to time to terminate their business relationships or otherwise reduce the amount of business with our Group; (iv) solicit or procure any of the directors, senior management or other employees of our Group from time to time to resign or otherwise cease providing services to our Group; and (v) without the prior written consent of our Company, make use of any information pertaining to the business of our Group which may have come to his/her/its knowledge for any purpose of engaging, investing or participating in any Restricted Activity.

Such non-competition undertaking does not apply to holding shares of a company which conducts or is engaged in any Restricted Activity, provided that, such shares are listed on a recognised stock exchange and: (a) the total number of the shares held by the Covenantors and/or their respective associates (individually and in aggregate) does not amount to more than 5% of the issued shares of such company; and (b) the Covenantors and/or their respective associates are not entitled to appoint a majority of the directors or management of that company.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Under the Deed of Non-Competition, the Covenantors further undertake to our Company the following:

- (i) in the event the Covenantors or any of their associates (other than members of our Group) are given any business opportunity that is or may involve direct or indirect competition with the business of our Group, the Covenantors shall provide our Group with a written notice in respect of the business opportunity and refer the business opportunity to our Group as soon as practicable and shall assist our Group to obtain such business opportunity in the terms being offered to any of the Covenantors or their associates;
- (ii) during the term of the Deed of Non-Competition, each of the Covenantors agrees to indemnify and keep indemnified at all times our Company and other members of our Group on demand against any loss or liability suffered by our Company and/or other members of our Group arising out of any breach of any of the Covenantor's undertakings and/or obligations under the Deed of Non-Competition, including any costs and expenses (including legal expenses) incurred as a result of such breach provided that the indemnity contained in this paragraph shall be without prejudice to any of the other rights and remedies of our Company or any members of our Group in relation to any such breach;
- (iii) the Covenantors shall allow, and shall procure its/his/her associates to allow, the independent non-executive Directors to review, at least on an annual basis, the compliance with the terms of the Deed of Non-Competition by the Covenantors, and the options, pre-emptive rights or first rights of refusals provided by the Covenantors on their existing or future competing business;
- (iv) the decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the Deed of Non-Competition (including without limitation the exercise of options or first rights of refusal, if any) shall be disclosed either through the annual report of our Company, or by way of announcements published by our Company to the public;
- (v) any new business opportunities under the Deed of Non-Competition and all other matters determined by our Board as having a potential conflict of interest with the Covenantors will be referred to the independent non-executive Directors of our Company for discussion and decision. When necessary, such independent non-executive Directors will engage an independent financial adviser to advise them on these matters. In the event any new business opportunities presented by or otherwise arising in connection with any of the Covenantors are turned down by our Group according to the Deed of Non-Competition, our Company will disclose the decision, as well as the basis for such decision in the annual report or interim report of our Company;
- (vi) the annual report of our Company will include the views and decisions, with bases, of the independent non-executive Directors of our Company on whether to take up any new opportunities under the Deed of Non-Competition or other matters having a potential conflict of interest with the Covenantors that have been referred to the independent non-executive Directors;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (vii) the Covenantors shall, upon demand, promptly provide, and shall procure its/his/her associates to provide, all information necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-Competition;
- (viii) the Covenantors shall make an annual declaration, to our Company and our independent non-executive Directors relating to the compliance with the Deed of Non-Competition for us to disclose in our corporate governance report in the annual report of our Company;
- (ix) when any business opportunity is referred to any members of our Group by any Covenantors, the independent non-executive Directors will consider such opportunity on the various aspects including viability and profitability. If any Covenantor is materially interested in such opportunity, then that Covenantor who has referred such business opportunity to the member of our Group shall not be counted in the quorum and must abstain from voting on matters relating to such business opportunity when such business opportunity is being considered at the board meeting; and
- (x) the Covenantors undertake, and undertake to procure its/his/her associates to ensure, that the interest rate offered by Victory Finance Company Limited will not be lower than the interest rate offered by our Group.

The Covenantors shall be entitled to pursue business opportunity that is or may involve direct or indirect competition with the businesses of our Group only after such business opportunity is being turned down by our Group as set out in paragraph (v) above.

Where the Covenantors and/or their associates (other than our Group) have acquired any business investment or interest in any entity relating to the Restricted Activity pursuant to Deed of Non-Competition, the relevant Covenantors and/or their associates (other than our Group) shall provide our Group with pre-emptive right (“**Pre-emptive Right**”) to acquire any such interest in Restricted Activity under the same circumstances. Where the independent board committee of our Company decides to waive the Pre-emptive Right by way of written notice, the relevant Covenantors and/or their associates (other than our Group) may offer to sell such business investment or interest in the Restricted Activity to other third parties on such terms which are no more favourable than those made available to our Group. In deciding whether to exercise the above Pre-emptive Right, our Directors will consider various factors including the purchase price and their values and benefits, as well as the benefit that they will bring to our Group.

For the above purpose, the “Relevant Period” means the period commencing on the [REDACTED] and expiring on the earlier of (i) the date upon which the Shares cease to be [REDACTED] on the Stock Exchange; or (ii) the date upon which (a) the Covenantors, individually or collectively (whether or not with their respective associates), cease to own, directly or indirectly, 30% or more of the then issued share capital of our Company (or such other percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer as required thereunder); (b) the Covenantors cease to control the composition of a majority of the Board; and (c) none of the Covenantors, nor any of their respective associates remain as a director or senior management of our Company.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to strengthen its corporate governance practice and to safeguard the interests of our Shareholders:

- (1) our independent non-executive Directors will review, on an annual basis, the Deed of Non-Competition to ensure compliance with the non-competition undertaking by our Controlling Shareholders;
- (2) our Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-Competition;
- (3) our Company will disclose decision and its basis on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the Deed of Non-Competition in the annual reports of our Company or by way of announcement to the public;
- (4) our Controlling Shareholders have undertaken to provide an annual confirmation to our Company confirming that each of our Controlling Shareholders and his/her/its close associates have not breached the terms of the undertakings contained in the Deed of Non-Competition; and
- (5) our Controlling Shareholders will abstain from voting at any general meeting of our Company if there is any actual or potential conflict of interests in relation to the Restricted Activity.

CONNECTED TRANSACTIONS

OVERVIEW

Pursuant to Chapter 20 of the GEM Listing Rules, the directors, substantial shareholders and chief executive of our Company or our subsidiaries, any person who was our Director or a director of our subsidiaries within 12 months preceding the [REDACTED], and any of their respective associates will become a connected person of our Company upon the [REDACTED]. Moreover, a deemed connected person also includes a relative of the connected person. Upon the [REDACTED], our transactions with such connected persons will constitute connected transactions of our Company under Chapter 20 of the GEM Listing Rules.

CONNECTED TRANSACTION

Software Licence Agreement

On 29 March 2018, Victory Securities (HK), as licensee, and Victory Corporate Solutions Company Limited, as licensor, entered into a software licence agreement (the “**Software Licence Agreement**”), pursuant to which Victory Corporate Solutions Company Limited has granted a non-exclusive right to Victory Securities (HK) to use a system software at consideration of HK\$800,000 for an indefinite term commencing from 1 April 2018. The consideration was arrived at after arm’s length negotiation between Victory Securities (HK) and Victory Corporate Solutions Company Limited with reference to: (i) the cost incurred by Victory Corporate Solutions Company Limited in designing the system software and (ii) the benefits the system software would bring to Victory Securities (HK). Victory Securities (HK) believes that the system software could enhance the business operation efficiency of Victory Securities (HK). The Directors are of the view that the entering into and the terms and conditions of the Software Licence Agreement are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of our Group, and in the best interests of the Company and the Shareholders as a whole.

Victory Corporate Solutions Company Limited is wholly-owned by Victory Financial Group Company Limited which is owned as to 70.53% by Ms. Kou, who is a Director of our Company. Victory Corporate Solutions Company Limited is therefore an associate of Ms. Kou and a connected person pursuant to the GEM Listing Rules. The transaction with Victory Corporate Solutions Company Limited therefore constitutes a connected transaction under Chapter 20 of the GEM Listing Rules. As the relevant applicable percentage ratios (as defined in the GEM Listing Rules) in respect of the transaction under the Software Purchase Agreement are less than 5% and the total consideration is less than HK\$3,000,000, hence this connected transaction is exempt from the reporting, announcement, circular and independent shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules.

CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

Our Directors confirm that the following transactions with our connected persons will continue and will constitute continuing connected transactions of our Company under Chapter 20 of the GEM Listing Rules upon the [REDACTED].

A. Brokerage and financing services to Ms. Kou, Mr. Chiu, Mr. Chan Pui Chuen, Mr. Chan, Ms. Chan Pui King and Mr. Ko Yuen Kwan

During the Track Record Period, Ms. Kou, Mr. Chiu, Mr. Chan Pui Chuen, Mr. Chan, Ms. Chan Pui King and Mr. Ko Yuen Kwan (where applicable, including their respective relatives) maintained trading accounts with Victory Securities (HK) through which they received securities brokerage and financing services. Victory Securities (HK) is going to continue to provide brokerage and financing services to them after the [REDACTED]. Since Ms. Kou, Mr. Chiu, Mr. Chan Pui Chuen and Mr. Chan are the Directors of our Company, they are connected persons under the definition of the GEM Listing Rules. Since Ms. Chan Pui King is a director of Victory (Nominees) and Mr. Ko Yuen Kwan was a director of Victory (Nominees) and Victory VC Asset Management in the last 12 months preceding the [REDACTED], they are also connected persons under the definition of the GEM Listing Rules. Accordingly, the provision of the brokerage and financing services to them and their relatives by Victory Securities (HK) after [REDACTED] will constitute continuing connected transactions. As some of these continuing connected transactions were entered or will be entered into with the parties connected or otherwise associated with one another, the transactions entered or will be entered into with such connected persons shall be categorised as same class of transactions and shall be aggregated into a series of connected transactions for the purpose of calculating the considerations as referred to in the table below under the column “Aggregation of Transactions”.

Connected Person(s)	Connected Relationship	Aggregation of Transactions
Ms. Kou	Director	Ms. Kou and her relatives (together “ Ms. Kou’s Group ”), namely: The late Dr. Kou Tak Tai (<i>father</i>) Ms. Ma Choi Chu (<i>mother-in-law</i>) Ms. Kou Luen (<i>elder sister</i>) Ms. Chan Yim Chau Flora (<i>sister-in-law</i>) Ms. Chan So Chau (<i>sister-in-law</i>) Mr. Chan Ying Kit (<i>spouse</i>) Mr. Chan Pui Chuen (<i>son</i>) Ms. Chan Pui King (<i>daughter</i>) Ms. Chui Fan (<i>niece</i>)
Mr. Chiu	Director	Mr. Chiu and his relatives (together “ Mr. Chiu’s Group ”), namely: Ms. Chan Yun Lai (<i>spouse</i>) Ms. Chan Yan Chi (<i>sister-in-law</i>) Mr. Chiu Kendy (<i>son</i>)

CONNECTED TRANSACTIONS

Connected Person(s)	Connected Relationship	Aggregation of Transactions
Mr. Chan Pui Chuen	Director	Mr. Chan Pui Chuen and his relatives are same as the members of Ms. Kou’s Group
Mr. Chan	Director	Mr. Chan and his relatives are same as the members of Ms. Kou’s Group
Ms. Chan Pui King	A director of Victory (Nominees)	Ms. Chan Pui King and her relatives are same as the members of Ms. Kou’s Group
Mr. Ko Yuen Kwan	A former director of Victory (Nominees) and Victory VC Asset Management ^(Note)	Mr. Ko Yuen Kwan and his relatives (together “ Mr. Ko Yuen Kwan’s Group ”), namely: Ms. Kwok Lo Ming (<i>mother</i>) Mr. Ko Yuen Fai (<i>brother</i>) Mr. Ko Yuen San (<i>brother</i>) Mr. Ko Yuen Sing (<i>brother</i>) Ms. Lam Siu Ping Caren (<i>spouse</i>) Ms. Wang Yan (<i>sister-in-law</i>) Ms. Lam Sui Ching (<i>sister-in-law</i>)

Note: Mr. Ko Yuen Kwan resigned as directors of Victory (Nominees) and Victory VC Asset Management on 26 July 2017 and 24 July 2017, respectively. Under Rule 20.07(2) of the GEM Listing Rules, he is considered as a connected person for the period up to and including 25 July 2018. Our Group intends to govern and monitor his trading activity according to the arrangement under continuing connected transactions.

Pursuant to the Connected Service Agreements, Victory Securities (HK) may (but is not obliged to), upon request, provide to Ms. Kou, Mr. Chiu, Mr. Chan Pui Chuen, Mr. Chan, Ms. Chan Pui King and Mr. Ko Yuen Kwan (where applicable, including their respective relatives) securities brokerage and financing services, on normal commercial terms and at rates comparable to rates offered to other clients of Victory Securities (HK) who are Independent Third Parties and in accordance with the pricing policy of Victory Securities (HK) from time to time. The Connected Service Agreements will be effective from the [REDACTED] to 31 December 2020 which can be terminated by either party with seven days prior written notice.

CONNECTED TRANSACTIONS

Pricing Policy

Set out below is a summary of the pricing policy and the service fees we generally charged our clients who are Independent Third Parties and Ms. Kou, Mr. Chiu, Mr. Chan Pui Chuen, Mr. Chan, Ms. Chan Pui King and Mr. Ko Yuen Kwan (where applicable, including their respective relatives) in relation to our securities brokerage and financing services during the Track Record Period:

Type of services and the relevant pricing policy	Commission rates/Interest rates applicable to Independent Third Parties	Commission rates/Interest rates applicable to Ms. Kou, Mr. Chiu, Mr. Chan Pui Chuen, Mr. Chan, Ms. Chan Pui King and Mr. Ko Yuen Kwan (where applicable, including their respective relatives)
Securities brokerage services (<i>Note 1</i>)	0% to 0.4%	0.1% to 0.25%
Non-IPO financing services (<i>Note 2</i>)	1% to 10% per annum	7.25% to 7.75% per annum
IPO financing services (<i>Note 2</i>)	2% to 2.7% per annum	2% to 2.7% per annum

Notes:

- (1) The commission rates were determined on a case-by-case basis after taking into account factors including the transaction histories, trading volumes, trading frequencies and financial positions of our clients and the then market commission rates.
- (2) The interest rates were determined with reference to, among other things, the level of risk of the relevant financing transaction, costs of funding and market interest rates.

During the Track Record Period, the securities brokerage commission rates and the financing interest rates charged on Ms. Kou’s Group, Mr. Chiu’s Group and Mr. Ko Yuen Kwan’s Group were comparable to those rates offered to other clients of our Group who are Independent Third Parties during the Track Record Period.

CONNECTED TRANSACTIONS

Annual caps for services to be provided to Ms. Kou, Mr. Chiu, Mr. Chan Pui Chuen, Mr. Chan, Ms. Chan Pui King and Mr. Ko Yuen Kwan (where applicable, including their respective relatives)

Pursuant to the Brokerage Service Agreements, Ms. Kou, Mr. Chiu, Mr. Chan Pui Chuen, Mr. Chan, Ms. Chan Pui King and Mr. Ko Yuen Kwan (where applicable, including their respective relatives) who receive securities brokerage services will pay securities brokerage fees to Victory Securities (HK). The annual maximum amounts of securities brokerage income from securities brokerage services (the “**Brokerage Annual Caps**”) to be provided to Ms. Kou’s Group, Mr. Chiu’s Group and Mr. Ko Yuen Kwan’s Group for the three years ending 31 December 2018, 2019 and 2020 are proposed as follows:

	Historical amount of the securities brokerage income for the year ended 31 December				Brokerage Annual Caps for the year ending 31 December		
	2016		2017		2018	2019	2020
	Brokerage services HK\$	% of total revenue	Brokerage services HK\$	% of total revenue	Brokerage services HK\$	Brokerage services HK\$	Brokerage services HK\$
Ms. Kou’s Group	96,134	0.3	53,506	0.1	150,000	150,000	150,000
Mr. Chiu’s Group	63	0.0	782	0.0	10,000	10,000	10,000
Mr. Ko Yuen Kwan’s Group	<u>25,455</u>	<u>0.1</u>	<u>35,775</u>	<u>0.1</u>	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>
Total	<u>121,652</u>	<u>0.4</u>	<u>90,063</u>	<u>0.2</u>	<u>460,000</u>	<u>460,000</u>	<u>460,000</u>

Pursuant to the Financing Service Agreements, Victory Securities (HK) will provide financing services to Ms. Kou, Mr. Chiu, Mr. Chan Pui Chuen, Mr. Chan, Ms. Chan Pui King and Mr. Ko Yuen Kwan (where applicable, including their respective relatives). The maximum daily outstanding amount of non-IPO financing (the “**Non-IPO Financing Annual Caps**”) and IPO financing (the “**IPO Financing Annual Caps**”) to Ms. Kou, Mr. Chiu, Mr. Chan Pui Chuen, Mr. Chan, Ms. Chan Pui King and Mr. Ko Yuen Kwan (where applicable, including their relatives) for the three years ending 31 December 2018, 2019 and 2020 are proposed as follows:

CONNECTED TRANSACTIONS

	Maximum daily outstanding amount of non-IPO financing for the year ended 31 December		Non-IPO Financing Annual Caps for the year ending 31 December		
	2016	2017	2018	2019	2020
	HK\$	HK\$	HK\$	HK\$	HK\$
Ms. Kou’s Group	10,053,573	7,313,599	15,000,000	15,000,000	15,000,000
Mr. Chiu’s Group	20	5,076	20,000	20,000	20,000
Mr. Ko Yuen Kwan’s Group	1,222,913	1,226,989	2,000,000	2,000,000	2,000,000

	Maximum daily outstanding amount of IPO financing for the year ended 31 December		IPO Financing Annual Caps for the year ending 31 December		
	2016	2017	2018	2019	2020
	HK\$	HK\$	HK\$	HK\$	HK\$
Ms. Kou’s Group	—	2,699,936	4,000,000	4,000,000	4,000,000
Mr. Chiu’s Group	—	249,994	200,000	200,000	200,000
Mr. Ko Yuen Kwan’s Group	470,898	799,981	1,000,000	1,000,000	1,000,000

On the other hand, Ms. Kou, Mr. Chiu, Mr. Chan Pui Chuen, Mr. Chan, Ms. Chan Pui King and Mr. Ko Yuen Kwan (where applicable, including their respective relatives) will pay interests to Victory Securities (HK). The annual maximum amounts of interest income from these financing services (the “**Interest Annual Caps**”) to be received from Ms. Kou, Mr. Chiu, Mr. Chan Pui Chuen, Mr. Chan, Ms. Chan Pui King and Mr. Ko Yuen Kwan (where applicable, including their relatives) for the three years ending 31 December 2018, 2019 and 2020 are proposed as follows:—

	Historical amount of the interest income for the year ending 31 December				Interest Annual Caps for the year ended 31 December		
	2016		2017		2018	2019	2020
	Financing services	% of total revenue	Financing services	% of total revenue	Financing services	Financing services	Financing services
	HK\$		HK\$		HK\$	HK\$	HK\$
Ms. Kou’s Group	24,404	0.1	96,871	0.2	350,000	350,000	350,000
Mr. Chiu’s Group	—	—	196	0.0	10,000	10,000	10,000
Mr. Ko Yuen Kwan’s Group	65,290	0.2	56,960	0.1	100,000	100,000	100,000
Total	<u>89,694</u>	<u>0.3</u>	<u>154,027</u>	<u>0.3</u>	<u>460,000</u>	<u>460,000</u>	<u>460,000</u>

CONNECTED TRANSACTIONS

Aggregated Annual Cap

The maximum amounts of the aggregated non-IPO financing and IPO financing services as stated above (i.e. the aggregated Non-IPO Financing Annual Caps and IPO Financing Annual Caps) (the “**Financing Annual Caps**”) for financing services provided to Ms. Kou’s Group, Mr. Chiu’s Group and Mr. Ko Yuen Kwan’s Group for the three years ending 31 December 2018, 2019 and 2020 are proposed as follows:

	Historical amount for the year ended 31 December		Financing Annual Caps for the year ending 31 December		
	2016 Total HK\$	2017 Total HK\$	2018 Total HK\$	2019 Total HK\$	2020 Total HK\$
Ms. Kou’s Group	10,053,573	10,013,535	19,000,000	19,000,000	19,000,000
Mr. Chiu’s Group	20	255,070	220,000	220,000	220,000
Mr. Ko Yuen Kwan’s Group	<u>1,693,811</u>	<u>2,026,970</u>	<u>3,000,000</u>	<u>3,000,000</u>	<u>3,000,000</u>
Total	<u>11,747,404</u>	<u>12,295,575</u>	<u>22,220,000</u>	<u>22,220,000</u>	<u>22,220,000</u>

The maximum amounts of the aggregated income from securities brokerage services and interest income from financing services (i.e. the aggregated Brokerage Annual Caps and Interest Annual Caps) (the “**Dealing Annual Caps**”) to be received from Ms. Kou’s Group, Mr. Chiu’s Group and Mr. Ko Yuen Kwan’s Group for the three years ending 31 December 2018, 2019 and 2020 are proposed as follows:

	Historical amount for the year ended 31 December				Dealing Annual Caps for the year ending 31 December		
	2016 Total HK\$	% of total revenue	2017 Total HK\$	% of total revenue	2018 Total HK\$	2019 Total HK\$	2020 Total HK\$
Ms. Kou’s Group	120,538	0.4	150,377	0.3	500,000	500,000	500,000
Mr. Chiu’s Group	63	0.0	978	0.0	20,000	20,000	20,000
Mr. Ko Yuen Kwan’s Group	<u>90,745</u>	<u>0.3</u>	<u>92,735</u>	<u>0.2</u>	<u>400,000</u>	<u>400,000</u>	<u>400,000</u>
Total	<u>211,346</u>	<u>0.7</u>	<u>244,090</u>	<u>0.5</u>	<u>920,000</u>	<u>920,000</u>	<u>920,000</u>

CONNECTED TRANSACTIONS

Basis for determining the Financing Annual Caps, and Dealing Annual Caps

In determining the Financing Annual Caps, our Directors have aggregated annual caps for financing services to be provided to Ms. Kou’s Group, Mr. Chiu’s Group and Mr. Ko Yuen Kwan’s Group (i.e. the Non-IPO Financing Annual Caps and IPO Financing Annual Caps), and have taken into account:—


- (1) for the Non-IPO Financing Annual Caps, our Directors noted the discrepancy between the historical amounts and the Non-IPO Financing Annual Caps for Ms. Kou’s Group, Mr. Chiu’s Group and Mr. Ko Yuen Kwan’s Group and have taken into consideration: (i) the investment style and financial status of Ms. Kou’s Group, Mr. Chiu’s Group and Mr. Ko Yuen Kwan’s Group, and (ii) the interest rates charged by other financing services providers.
- (2) for the IPO Financing Annual Caps, our Directors noted the discrepancy between the historical amounts and the IPO Financing Annual Caps for Ms. Kou’s Group, Mr. Chiu’s Group and Mr. Ko Yuen Kwan’s Group and have taken into consideration: (i) the investment style and financial status of Ms. Kou’s Group, Mr. Chiu’s Group and Mr. Ko Yuen Kwan’s Group, (ii) the interest rates charged by other financing services providers, and (iii) the expected share trading volume and IPO subscription amount of Ms. Kou’s Group, Mr. Chiu’s Group and Mr. Ko Yuen Kwan’s Group.

In determining the Dealing Annual Caps, our Directors have aggregated all annual caps for income to be received from Ms. Kou’s Group, Mr. Chiu’s Group and Mr. Ko Yuen Kwan’s Group (i.e. the Brokerage Annual Caps and the Interest Annual Cap), and have taken into account:—

- (1) for the Brokerage Annual Caps, our Directors noted the discrepancy between the historical amounts and the Brokerage Annual Caps for Ms. Kou’s Group, Mr. Chiu’s Group and Mr. Ko Yuen Kwan’s Group and have taken into consideration: (i) the trading volume of the overall market and (ii) the expected amount of income to be generated from the provision of brokerage securities services to Ms. Kou’s Group, Mr. Chiu’s Group and Mr. Ko Yuen Kwan’s Group, respectively.
- (2) for the Interest Annual Caps, our Directors have taken into consideration: (i) the Non-IPO Financing Annual Caps and the IPO Financing Annual Caps, and (ii) the expected average interest rates for IPO financing and Non-IPO financing.

CONNECTED TRANSACTIONS

B. Trademark Licence Deed

On 14 June 2018, our Company, as licensee, and DTTFK, as licensor, entered into a trademark licence deed (the “**Trademark Licence Deed**”) pursuant to which DTTFK has granted an exclusive right to our Group to use the trademark “ 勝利證券有限公司” (the “**Trademark**”) with no consideration for a term of three years commencing from 23 June 2017 (i.e. the date DTTFK began to own the Trademark).

C. Asset Management Agreement

On 14 June 2018, Victory Securities (HK) entered into an asset management agreement (the “**Asset Management Agreement**”) with Victory Global Trustee Company Limited, pursuant to which Victory Securities (HK) agreed to provide asset management services to Victory Global Trustee Company Limited for a term of three years commencing from 1 April 2018.

Pursuant to the Asset Management Agreement, Victory Securities (HK) shall perform such duties as are customarily performed by an investment manager of a unit trust fund or as may be agreed from time to time between Victory Securities (HK) and Victory Global Trustee Company Limited. Victory Securities (HK) shall, subject to the overall supervision and control of the directors of Victory Global Trustee Company Limited, manage the assets and investments which are held by Victory Global Trustee Company Limited as trustee on a discretionary basis in pursuit of the relevant investment objective of the trust(s) managed and administered by Victory Global Trustee Company Limited and subject to the appropriate investment control and restrictions of Victory Global Trustee Company Limited. In consideration of the services provided to Victory Global Trustee Company Limited by Victory Securities (HK) under the Asset Management Agreement, (i) Victory Global Trustee Company Limited shall pay Victory Securities (HK) the asset management fees and performance fees which are on terms no less favourable to our Group than the terms offered by Independent Third Parties; and (ii) Victory Global Trustee Company Limited shall reimburse Victory Securities (HK) for all out-of-pocket costs and expenses incurred by Victory Securities (HK) (or by any delegate or agent appointed by it pursuant to the Asset Management Agreement) in the performance of its duties and obligations under the Asset Management Agreement.

Victory Global Trustee Company Limited is owned as to 20%, 20%, 20%, 20% and 20% by Victory Financial Group Company Limited, Mr. Ko Yuen Kwan, Mr. Chiu, Mr. Chan Pui Chuen and Mr. Yeung Tak Kuen, respectively. Since Victory Financial Group Company Limited is owned as to 70.53% by Ms. Kou, who is a Director of our Company, Victory Financial Group Company Limited is a connected person pursuant to the GEM Listing Rules. Mr. Ko Yuen Kwan is a former director of Victory (Nominees) and Victory VC Asset Management, Mr. Chiu and Mr. Chan Pui Chuen are Directors of our Company, they are therefore connected persons pursuant to the GEM Listing Rules. Mr. Yeung Tak Kuen is one of our Controlling Shareholders. Since Victory Global Trustee Company Limited is owned by the connected persons of our Company, it is considered as a connected person of our Company.

CONNECTED TRANSACTIONS

It is expected that the annual caps for the aggregate of performance fee and management fee will be HK\$2.0 million (the “**Asset Management Annual Caps**”) for each of the three years ending 31 December 2020. The annual caps for the aggregate of performance fee and management fee under the Asset Management Agreement for the three years ending 31 December 2020 was determined by reference to (i) the amount of assets managed by Victory Securities (HK) during the Track Record Period which was approximately HK\$207.7 million as at 31 December 2017; and (ii) the expected market sentiments of the securities market in Hong Kong.

GEM LISTING RULES IMPLICATIONS

Non-exempt continuing connected transactions

Our Directors expect that the applicable percentage ratios under Chapter 20 of the GEM Listing Rules calculated with reference to the Financing Annual Caps of Ms. Kou’s Group on an annual basis will be more than 25% or the annual cap will be more than HK\$10,000,000, hence the continuing connected transactions contemplated thereunder are subject to the annual review, reporting, announcement and independent shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules.

Continuing connected transaction exempt from the independent shareholders’ approval requirement but subject to annual review, reporting and announcement

Our Directors expect that the applicable ratios under Chapter 20 of the GEM Listing Rules calculated with reference to the Financing Annual Caps of Mr. Ko Yuen Kwan’s Group on annual basis will be less than 25% but more than 5% and the total consideration is less than HK\$10,000,000 but more than HK\$3,000,000, hence the continuing connected transactions contemplated thereunder are exempt from the independent shareholders’ approval requirements but subject to annual review, reporting and announcement under Chapter 20 of the GEM Listing Rules.

Continuing connected transactions exempt from annual review, reporting, announcement and independent shareholders’ approval requirement

Our Directors expect that the applicable percentage ratios under Chapter 20 of the GEM Listing Rules calculated with reference to each of (i) the Financing Annual Caps of Mr. Chiu’s Group; (ii) the Dealing Annual Caps of Ms. Kou’s Group; (iii) the Dealing Annual Caps of Mr. Chiu’s Group; (iv) the Dealing Annual Caps of Mr. Ko Yuen Kwan’s Group and (v) the Asset Management Annual Caps on an annual basis will be less than 5% and the annual cap will be less than HK\$3,000,000, hence the continuing connected transactions contemplated thereunder are exempt from the annual review, reporting, announcement and independent shareholders’ requirements under Chapter 20 of the GEM Listing Rules.

CONNECTED TRANSACTIONS

Trademark Licence Deed

Our Directors expect that the applicable percentage ratios under Chapter 20 of the GEM Listing Rules for the continuing connected transaction under the Trademark Licence Deed on an annual basis will be less than 5% and the annual cap will be less than HK\$3,000,000, hence the continuing connected transaction contemplated thereunder is exempt from the annual review, reporting, announcement and independent shareholders’ requirements under Chapter 20 of the GEM Listing Rules.

Our Company will comply with the requirements under Chapter 20 of the GEM Listing Rules to aggregate any transactions with other persons or parties that will become associates of Ms. Kou’s Group, Mr. Chiu’s Group and Mr. Ko Yuen Kwan’s Group.

CONFIRMATION OF OUR DIRECTORS AND THE SOLE SPONSOR

Having considered that (i) the historical non-IPO financing and IPO financing services provided to Ms. Kou’s Group and Mr. Ko Yuen Kwan’s Group during the Track Record Period were at rates comparable to those offered to other clients of Victory Securities (HK) who are Independent Third Parties; and (ii) the rates are in accordance with the pricing policy of Victory Securities (HK) from time to time, our Directors (including our independent non-executive Directors) and the Sole Sponsor are of the view that (i) each of the continuing connected transactions mentioned in the paragraph headed “Non-exempt continuing connected transactions” and the paragraph headed “Continuing connected transaction exempt from the independent shareholders’ approval requirement but subject to annual review, reporting and announcement” above has been entered into in the ordinary and usual course of our business, on normal commercial terms or better that are fair and reasonable and in the interest of our Shareholders as a whole; and (ii) the proposed annual caps for such continuing connected transactions mentioned in the paragraph headed “Annual caps for services to be provided to Ms. Kou, Mr. Chiu, Mr. Chan Pui Chuen, Mr. Chan, Ms. Chan Pui King and Mr. Ko Yuen Kwan (where applicable, including their respective relatives)” above are fair and reasonable and in the interests of our Shareholders as a whole.

WAIVER FROM THE STOCK EXCHANGE

Given the recurring nature and the fact that the continuing connected transactions mentioned in the paragraph headed “Non-exempt continuing connected transactions” above were entered into prior to the [REDACTED], our Directors consider that compliance with the announcement and independent shareholders’ approval requirements would be unduly burdensome and would add unnecessary administrative costs to our Company. Accordingly, we have applied to the Stock Exchange, and the Stock Exchange has granted, a waiver to us from strict compliance with the announcement and independent shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules, relating to the continuing connected transactions mentioned in the paragraph headed “Non-exempt continuing connected transactions” above on the condition that the annual value of each of the transactions does not exceed the relevant cap as stated above.

CONNECTED TRANSACTIONS

Given the recurring nature and the fact that the continuing connected transaction mentioned in the paragraph headed “Continuing connected transaction exempt from the independent shareholders’ approval requirement but subject to annual review, reporting and announcement” above was entered into prior to the [REDACTED], our Directors consider that compliance with the announcement requirement would be unduly burdensome and would add unnecessary administrative costs to our Company. Accordingly, we have applied to the Stock Exchange, and the Stock Exchange has granted, a waiver to us from strict compliance with the announcement requirement under Chapter 20 of the GEM Listing Rules, relating to the continuing connected transactions mentioned in the paragraph headed “Continuing connected transaction exempt from the independent shareholders’ approval requirement but subject to annual review, reporting and announcement” above on the condition that the annual value of each of the transactions does not exceed the relevant cap as stated above.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

DIRECTORS

Our Board consists of seven members, comprising three executive Directors, one non-executive Director and three independent non-executive Directors. Our Board is responsible and has general powers for the management and conduct of our businesses. The table below sets out certain information in respect of our Directors:

Name	Age	Position	Date of joining our Group <i>(Note)</i>	Date of appointment as a Director	Responsibilities	Relationship with other Director(s) and/or senior management
Ms. Kou Kuen (高鵬)	59	Executive Director and chief executive officer	May 1990	22 August 2016	Overall management and business development and strategic planning of our Group	Spouse of Mr. Chan Ying Kit and mother of Mr. Chan Pui Chuen
Mr. Chiu Che Leung Stephen (趙子良)	68	Executive Director and chief operating officer	June 2005	22 August 2016	Overall supervision of operations of our Group	Nil
Mr. Chan Pui Chuen (陳沛泉)	28	Executive Director and joint company secretary	January 2013	5 September 2017	Overseeing compliance, internal control and risk management of our Group	Son of Ms. Kou Kuen and Mr. Chan Ying Kit
Mr. Chan Ying Kit (陳英傑)	62	Non-executive Director and the chairman of our Board	June 2001	22 August 2016	Strategic planning of our Group	Spouse of Ms. Kou Kuen and father of Mr. Chan Pui Chuen
Mr. Leung Kwong Kin (梁光建)	71	Independent non-executive Director	14 June 2018	14 June 2018	Provision of independent advice to the Board	Nil
Mr. Liu Chun Ning Wilfred (廖俊寧)	56	Independent non-executive Director	14 June 2018	14 June 2018	Provision of independent advice to the Board	Nil
Dr. Yan Ka Shing (甄嘉勝)	32	Independent non-executive Director	14 June 2018	14 June 2018	Provision of independent advice to the Board	Nil

Note: The date of joining our Group in this table above includes the dates of joining members of our Group (including being appointed as a director of any member of our Group) prior to the reorganisation of such members into our Group.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

SENIOR MANAGEMENT

Name	Age	Position	Date of joining our Group (Note)	Relationship with other Director(s) and/or senior management
Mr. Zhou Lele (周樂樂)	33	Deputy chief operating officer	11 June 2012	Nil

Note: The date of joining our Group in this table above includes the dates of joining members of our Group prior to the reorganisation of such members into our Group.

Executive Directors

Ms. Kou Kuen (高鵬), aged 59, was appointed as a Director on 22 August 2016 and was designated as an executive Director and chief executive officer on 11 September 2017. Ms. Kou is one of our Controlling Shareholders. She is responsible for the overall management and business development and strategic planning of our Group. She is a director of Victory Securities (BVI) and Victory Securities (HK). Ms. Kou is the spouse of Mr. Chan and the mother of Mr. Chan Pui Chuen.

Ms. Kou has over 26 years of experience in the securities industry. In 1979, she joined Victory Investment Company as a clerk. From September 1979 to August 1982, she was mainly responsible for back office operation of Victory Investment Company. From August 1986 to March 1988, she worked in Hong Kong office of Canadian Communications International as executive assistant/marketing manager. From April 1988 to July 1990, she worked in Translanguage Centre Limited as an assistant marketing manager and was later promoted to marketing manager. She also became the marketing manager of the subsidiary of Translanguage Centre Limited, namely, Translanguage-IRH Limited, from October 1988 to July 1990. Subsequently in 1990, she re-joined Victory Investment Company as a manager and undertook managerial and supervisory roles. She was responsible for overall administration and operation of Victory Investment Company. From January 2003 to February 2015, she was the general manager of Victory Securities (HK). From March 2015 to December 2016, she was the managing director of Victory Securities (HK). Since January 2017, she has been the chief executive officer and a director of Victory Securities (HK).

Ms. Kou obtained a bachelor’s degree in administrative studies from York University in Toronto, Canada in June 1986. She is currently licensed by the SFC to act as a Responsible Officer to carry out 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 she shall not provide a service of managing a portfolio of futures contracts for another person) regulated activities under the SFO. Ms. Kou currently is director and vice-chairman of the Hong Kong Securities Association for the term 2017 to 2019.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Ms. Kou, being the responsible officer of Victory Securities (HK) in August 2003, was prosecuted by the SFC for pledging clients' securities without prior approval from clients, in breach of the Securities and Futures (Client Securities) Rules. It was revealed that Victory Securities (HK) had: (i) pledged securities belonging to its cash clients to its banks recklessly on two occasions in August 2003 involving shares worth HK\$77,255 and HK\$56,609, respectively without obtaining prior client approval; and (ii) failed to implement an effective internal control system to ensure that client securities were properly allocated to the correct designated CCASS sub-accounts. As Ms. Kou was the responsible officer of Victory Securities (HK) in charge of the overall administration and operation, the breaches by Victory Securities (HK) was attributable to her. Victory Securities (HK) and Ms. Kou each pleaded guilty to two summonses in relation to this incident and was fined a sum of HK\$10,000. The SFC suspended Ms. Kou for one month from 28 March 2006 to 27 April 2006 due to this incident. The SFC also 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.

Our Directors (including the independent non-executive Directors) and the Sole Sponsor consider that Ms. Kou is suitable and able to perform her role as an executive Director under Rules 5.01 and 5.02 of the GEM Listing Rules on the following bases:

1. The offence was strict liability offence and the disciplinary action of Ms. Kou did not raise issues of her integrity.
2. We have taken the following remedial measures upon being aware of the issues raised by the SFC:
 - Victory Securities (HK) implemented a new computer system to tackle the problem of pledging client securities without prior client approval and to ensure that client securities were properly allocated to the correct designated CCASS sub-accounts;
 - Victory Securities (HK) has included in its operational manual a rule to prohibit pledging of securities belonging to its cash clients without obtaining prior client approval; and
 - Victory Securities (HK) engaged a compliance officer to ensure its compliance of the relevant laws and regulations in 2004.
3. We have also engaged an independent internal control advisor to conduct a review of our Group's internal control system. For further information, please refer to the paragraph headed "Business — Risk management and internal control — Internal control weakness identified by the internal control adviser and subsequent rectification measures" in this document. We believe that the internal control of our Group is sufficient to ensure due compliance with laws and regulations going forward and this could be demonstrated by our overall compliance record in the past years. We have not been subject to any formal disciplinary action or been publicly reprimanded by the SFC or the Stock Exchange since 2006 after the suspension of Ms. Kou for one month from 28 March 2006 to 27 April 2006. Moreover, Victory Securities (HK) firstly obtained an ISO 9001 Quality Management System Certification regarding provision of securities and futures trading services in 2008.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

4. Ms. Kou has placed strong focus on the compliance and corporate governance since the incident in 2003 and have not been subject to any personal disciplinary action or reprimanded by the SFC or the Stock Exchange since then. It can be shown from Ms. Kou's personal training records as well as our compliance record after the incident. Ms. Kou has shown due respect to the rules and regulations applicable to her as a Responsible Officer.
5. Ms. Kou has been a Responsible Officer under the SFO after the suspension in April 2006 and has continued to be a Responsible Officer without any interruption since then. We are of the view that Ms. Kou is fit and proper to conduct licensed activities of our Group given her track record in the past years. As a Responsible Officer, Ms. Kou has attended continuous professional training during the Track Record Period on matters relating to the regulated activities which she is accredited.

Mr. Chiu Che Leung Stephen (趙子良), aged 68, was appointed as a Director on 22 August 2016 and was designated as an executive Director and chief operating officer on 11 September 2017. He is one of our Controlling Shareholders. He is responsible for overall supervision of operations of our Group. He is a director of Victory Securities (BVI) and Victory Securities (HK).

Mr. Chiu has over 43 years of experience in the securities industry. He was a business and office manager in Shung Lee Stock Investment Company from April 1973 to August 1984. He was the sole proprietor of Ten & Ten Securities Company from 1988 to 2005. Mr. Chiu joined Victory Securities (HK) in 2004 when it was merged with Ten & Ten Securities Company. For details of the merger, please refer to the section headed "History, Development and Reorganisation" in this document. From December 2004 to December 2005, he was the branch manager of Victory Security (HK). From January 2006 to December 2015, he was the compliance officer and deputy general manager of Victory Security (HK). From January 2016 to August 2017, he was the managing director of Victory Security (HK). Since September 2017, he has been the chief operating officer of Victory Security (HK).

Mr. Chiu completed his secondary school education in 1967. He is currently licensed by the SFC to act as a Responsible Officer to carry out 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 he shall not provide a service of managing a portfolio of futures contracts for another person) regulated activities under the SFO.

Mr. Chan Pui Chuen (陳沛泉), aged 28, was appointed as a Director on 5 September 2017 and was designated as an executive Director on 11 September 2017. He was appointed as the one of our joint company secretaries on 10 October 2017. He is one of our Controlling Shareholders. He is responsible for overseeing compliance, internal control and risk management of our Group. He is a director of Victory (Nominees) and Victory VC Asset Management. Mr. Chan Pui Chuen is the son of Ms. Kou and Mr. Chan.

Mr. Chan Pui Chuen was approved by the SFC to be the Licensed Representative of Victory Securities (HK) for Type 1 regulated activity on 24 July 2013 and he has been employed by Victory Securities (HK) on a full-time basis since then. He was promoted as a senior compliance manager of Victory Securities (HK) from March 2015.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Chan Pui Chuen obtained a bachelor of arts degree in management studies from the University of Nottingham, the United Kingdom, in July 2012. He is currently licensed by the SFC to act as a Licensed Representative to carry out Type 1 (dealing in securities) and Type 9 (asset management) regulated activities under the SFO.

Non-executive Director

Mr. Chan Ying Kit (陳英傑), aged 62, was appointed as a Director on 22 August 2016 and was designated as the chairman of the Board and a non-executive Director on 11 September 2017. Mr. Chan is one of our Controlling Shareholders. As a chairman of our Board, he is responsible for strategic planning of our Group. He is also a director of Victory Securities (BVI), Victory Securities (HK) and Victory VC Asset Management. Mr. Chan is the spouse of Ms. Kou and the father of Mr. Chan Pui Chuen.

Mr. Chan has over 38 years of experience in the construction and engineering industry. From May 1978 to August 1980, he worked in Hsin Chong Construction Company Limited as a laboratory assistant. From December 1980 to February 1983, he worked in Wah Hin Company Limited as a site supervisor. From March 1983 to February 1985, he worked in Maunsell Consultants Asia as a senior supervisor. From February 1985 to March 1988, he worked in Nishimatsu Construction Company Limited as an inspector of works. From April 1988 to April 1993, he worked in Hong Kong Electric Company Limited as an engineer. From April 1994 to August 2006, he worked in i-CABLE Network Limited as a project manager and department head of special projects department. Since May 2007, he has worked in Ecobuild Engineering and Technology Company Limited as a director.

Mr. Chan Ying Kit obtained a certificate for housing superintendents from the Haking Wong Technical Institute (currently known as The Hong Kong Institute of Vocational Education (Haking Wong)) in May 1979. He also obtained a certificate in building studies from the Hong Kong Polytechnic (currently known as The Hong Kong Polytechnic University) in November 1982. He completed the course leading to associate examination of the Chartered Institute of Building and the course leading to final part I examination of the Chartered Institute of Building both from the Hong Kong Polytechnic (currently known as The Hong Kong Polytechnic University) in June 1983 and June 1984, respectively. He obtained an associateship in building technology and management from Hong Kong Polytechnic (currently known as The Hong Kong Polytechnic University) in October 1986. He also obtained a master of business administration from The University of Hull, United Kingdom in February 1999.

Independent non-executive Directors

Mr. Leung Kwong Kin (梁光建), *J.P.*, aged 71, was appointed as an independent non-executive Director on 14 June 2018. He is primarily responsible for providing independent advice to our Board.

Mr. Leung Kwong Kin, has over 46 years of experience in accounting. From 1967 to 1982, he worked in Coopers and Lybrands (currently known as PricewaterhouseCoopers) and his last position was audit manager. From 1982 to 1985, he worked in his company, Golden Melody Secretaries Limited, as an executive director. From 1985 to 1992, he worked in John Wu & Co CPA first as a principal and then as a partner when he became a Certified Public Accountant in October 1991. From

DIRECTORS, SENIOR MANAGEMENT AND STAFF

October 1991 to May 1993 he worked in K. K. Leung & Co CPA as a sole proprietor. From June 1993 to January 2000, he worked in Wong Lam Leung & Kwok CPA as a partner. From January 2000 to December 2013, he worked in Wong Lam Leung & Kwok C.P.A. Limited as a senior practising director. Since December 2013, he has worked in his company, Alliance Investment and Services Limited, as a director and general manager to present.

From January 2000, Mr. Leung Kwong Kin has served as an independent non-executive director of E. Bon Holdings Limited (Stock Code: 599), a company listed on the Main Board of the Stock Exchange which is principally engaged in the importing, wholesale and installation of architectural builders hardware, bathroom, kitchen collections and furniture and the provision of construction service for property developers in Hong Kong and the PRC. He is primarily responsible for supervising and providing independent advice to the board of this company.

Mr. Leung Kwong Kin obtained a master's degree of business administration from the University of East Asia, Macau (currently known as the University of Macau) in October 1986. He has been a Certified Public Accountant since October 1991. He was admitted as a fellow of the Hong Kong Institute of Certified Public Accountants in April 1995, a fellow of the Association of Chartered Certified Accountants in February 1997, a fellow of The Institute of Chartered Accountants in England & Wales in October 2015 and a fellow of the Society of Chinese Accountants & Auditors in December 2015. He was also admitted as an associate of The Taxation Institute of Hong Kong in November 1992 and a certified tax adviser of The Taxation Institute of Hong Kong in January 2017.

Mr. Leung was a director of the companies listed below, which were incorporated in Hong Kong and were dissolved by deregistration by Registrar of Companies of Hong Kong pursuant to section 291AA of the Predecessor Companies Ordinance or section 751 of the Companies Ordinance (as the case may be):

Company name	Principal business activity three (3) months immediately before application for dissolutions	Date of Application for dissolution	Date of dissolution	Reason for the dissolutions
Henson Nominees Limited	No business operations	26 June 2014	28 November 2014	No business operations
Wong Lam Leung & Kwok Tax Consultants Limited	No business operations	8 August 2005	16 December 2005	No business operations

Mr. Leung confirmed that, as at the Latest Practicable Date, no claims have been made against him and he was not aware of any threatened and potential claims made against him as a result of the dissolutions of the above dissolved companies. Mr. Leung also confirmed that all of the above dissolved companies were solvent at the time of their dissolutions.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Liu Chun Ning Wilfred (廖俊寧), aged 56, was appointed as an independent non-executive Director on 14 June 2018. He is primarily responsible for providing independent advice to our Board.

Mr. Liu Chun Ning Wilfred has over 30 years of experience in the securities industry. From September 1987 to March 1989, he worked in Prudential — Bache Securities (Hong Kong) Limited as a financial Broker. From April 1989 to June 1991, he worked in The Stock Exchange of Hong Kong Limited as a planning and development officer and then as a compliance supervisor. From July 1991 to October 1992, he worked in IBJ Asia Limited as a bond trader. From December 1993 to May 1998, he worked in Chong Hing Bank Limited as manager of the securities department and then as a senior manager of the securities department. From May 1998 to February 2014, he worked as an executive director of Chong Hing Bank Limited (Stock Code: 1111), a company listed on the Main Board of the Stock Exchange which is principally engaged in provision of banking and related financial services. He was in charge of the securities business division of this company.

From March 1997 to May 2017, Mr. Liu Chun Ning Wilfred served as a non-executive director of Liu Chong Hing Investment Limited (Stock Code: 194), a company listed on the Main Board of the Stock Exchange which is principally engaged in property investment, property development, property management, treasury investment, trading and manufacturing and hotel operation.

From August 2001 till present, Mr. Liu Chun Ning Wilfred serves as an independent non-executive director of S.A.S. Holdings Limited (Stock Code: 1184), a company listed on the Main Board of the Stock Exchange which is principally engaged in the distribution of electronic components and semiconductors products; properties investments and distribution of sports products. He is primarily responsible for supervising and providing independent advice to the board of this company.

From May 2002 to September 2014, Mr. Liu Chun Ning Wilfred served as an independent non-executive director of Get Nice Holdings Limited (Stock Code: 64), a company listed on the Main Board of the Stock Exchange which is principally engaged in the money lending; property development and holding and investment in financial instruments; real estate brokerage and provision of financial services. He was primarily responsible for supervising and providing independent advice to the board of this company.

Mr. Liu Chun Ning Wilfred obtained a bachelor of arts degree in economics from the University of Newcastle Upon Tyne, United Kingdom in July 1987.

Dr. Yan Ka Shing (甄嘉勝), aged 32, was appointed as an independent non-executive Director on 14 June 2018. He is primarily responsible for providing independent advice to our Board.

Dr. Yan Ka Shing has around 6 years of experience in the medical industry. Dr. Yan has been employed by the Hospital Authority since July 2011. He completed his housemanship in the Hospital Authority from July 2011 to June 2012. He then became a registered doctor and has served as a medical officer in various hospitals managed by Hospital Authority in Hong Kong, since July 2012.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Dr. Yan Ka Shing obtained a bachelor of medicine and bachelor of surgery degrees from the University of Hong Kong in November 2011. He also obtained Membership of the Royal Colleges of Physicians of the United Kingdom (MRCP(UK)), a postgraduate medical diploma in the United Kingdom, in March 2016. He was then admitted as a member of the Hong Kong College of Physicians in January 2017. Moreover, he has been a member of the Hong Kong Medical Association since July 2011.

Save as disclosed above and in the paragraph headed “C. Further information about directors, senior management and substantial shareholders” in Appendix V to this document, each of our Directors (i) had no interest in the Shares within the meaning of part XV of the SFO as at the Latest Practicable Date; (ii) is independent from, and not related to, any Directors, substantial shareholders, Controlling Shareholders, or senior management of our Company; and (iii) did not hold any other directorships in public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

To the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of the Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules as at the Latest Practicable Date.

SENIOR MANAGEMENT

Mr. Zhou Lele (周樂樂), aged 34, is the deputy chief operating officer of our Group. He joined our Group in June 2012 and is primarily responsible for overall business development and strategic planning of global market for our Group. He has over 5 years of experience in the securities industry. Prior to joining our Group, he was the assistant to the chairman of the board of Tianjin Teda Landun Group from June 2008 to May 2010. He obtained a bachelor of science in applied chemistry from Xiangtan University (湘潭大學, Hu’nan Province, the PRC) and a master of business administration degree (finance) from the Chinese University of Hong Kong in June 2006 and October 2011, respectively. He is currently licensed by the SFC to act as a Licensed Representative to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO.

JOINT COMPANY SECRETARIES

Mr. Wong Wai Chiu (黃偉超) was appointed as one of our joint company secretaries on 30 May 2018. He is an associate director of SWCS Corporate Services Group (Hong Kong) Limited (formerly known as SW Corporate Services Group Limited) and has over 20 years of experience in the corporate services field. He holds a Postgraduate Diploma in English and Hong Kong Law (Common Professional Examination) from The Manchester Metropolitan University by distance learning and a Master of Corporate Governance from The Hong Kong Polytechnic University. He is a fellow member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Chan Pui Chuen (陳沛泉) was appointed as one of our joint company secretaries on 10 October 2017. For details of his background, please refer to the paragraphs headed “Executive Directors” above.

COMPLIANCE OFFICER

Mr. Chiu is the compliance officer. Please refer to the paragraph headed “Executive Directors” above for the biography of Mr. Chiu.

REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of fees, salaries, commission, contributions to pension schemes, other allowances, other benefits in kind and/or discretionary bonuses with reference to those paid by comparable companies, time commitment and performance of our Directors and senior management, as well as the performance of our Group.

We regularly review and determine the remuneration and compensation packages of our Directors and senior management by reference to, among other things, market level of remuneration and compensation paid by comparable companies, respective responsibilities of our Directors and senior management and performance of our Group.

Following the [REDACTED], the Remuneration Committee of the Board will review and determine the remuneration and compensation packages of our Directors with reference to their experience, responsibilities, workload and time devoted to our Group and performance of our Group.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

For each of the financial years ended 31 December 2016 and 2017, the aggregate director’s fee, salaries, commission and allowances and retirement benefits scheme contribution, other benefits in kind and/or discretionary bonuses paid by us to our Directors were HK\$1.6 million and HK\$3.7 million, respectively.

For each of the financial years ended 31 December 2016 and 2017, the aggregate salaries, commission and allowances, other benefits in kind, discretionary bonuses and retirement benefits scheme contribution paid by us to the five highest paid individuals was HK\$3.2 million and HK\$8.2 million, respectively.

Save as disclosed above, no other emoluments have been paid, or are payable, by us to our Directors and the five highest paid individuals in respect of each of the financial years ended 31 December 2016 and 2017, respectively.

Under the arrangements currently in force, we estimate the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary benefits or bonus or other fringe benefits) for the financial year ending 31 December 2018 will be HK\$2,653,333.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

During the Track Record Period, no remuneration was paid by us to, or received by, our Directors or the five highest paid individuals as an inducement to join or upon joining us or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. Further information on the Share Option Scheme is set out in the paragraph headed “D. Share Option Scheme” in Appendix V to this document.

BOARD COMMITTEES

Audit Committee

Our Audit Committee consists of three members, namely Mr. Leung Kwong Kin, Mr. Chan Ying Kit and Dr. Yan Ka Shing. Mr. Leung Kwong Kin is the chairman of the Audit Committee, who holds the appropriate qualifications as required under Rules 5.05(2) and 5.28 of the GEM Listing Rules. Written terms of reference for our Audit Committee have been adopted in accordance with paragraphs C.3.3 and C.3.7 of the Corporate Governance Code (the “**Corporate Governance Code**”) as set out in Appendix 15 to the GEM Listing Rules.

The primary duties of our Audit Committee are to review and supervise our financial reporting process, to nominate and monitor our external auditors, and to oversee our risk management and internal control procedures.

Remuneration Committee

Our Remuneration Committee consists of three members, namely Mr. Leung Kwong Kin, Dr. Yan Ka Shing and Ms. Kou. Mr. Leung Kwong Kin is the chairman of our Remuneration Committee. Written terms of reference for the Remuneration Committee were adopted in accordance with paragraph B.1.2 of the Corporate Governance Code.

The primary duties of our Remuneration Committee are to make recommendation to our Board on the overall remuneration policy and structure relating to our Directors and senior management, and to ensure that none of our Directors determine their own remuneration.

Nomination Committee

Our Nomination Committee consists of three members, namely Mr. Leung Kwong Kin, Dr. Yan Ka Shing and Mr. Chan Pui Chuen. Dr. Yan Ka Shing is the chairman of our Nomination Committee. Written terms of reference for our Nomination Committee were adopted in accordance with paragraph A.5.2 of the Corporate Governance Code.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

The primary duties of our Nomination Committee are to review the structure, size and composition of our Board annually, to identify individuals suitably qualified to become members of our Board, to assess the independence of our independent non-executive Directors, and to make recommendations to our Board on relevant matters relating to appointments of Directors.

CORPORATE GOVERNANCE

We will comply with the Corporate Governance Code. Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code each financial year and comply with the “comply or explain” principle in our corporate governance report which will be included in our annual reports upon the [REDACTED].

COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, we have appointed Pulsar as our compliance adviser, who will have access to all relevant records and information relating to our Group that it may reasonably require to properly perform its duties.

Pursuant to Rule 6A.23 of the GEM Listing Rules, we will consult with, and seek advice from, our compliance adviser on a timely basis in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction under the GEM Listing Rules, is contemplated by our Group, including share issues and share repurchases;
- (c) where our Group propose to [REDACTED] of the [REDACTED] in a manner different from that detailed in this document or where our Group’s business activities, developments or results of operations deviate from any forecast, estimate or other information in this document; and
- (d) where the Stock Exchange makes an inquiry of us under Rule 17.11 of the GEM Listing Rules.

The terms of our appointment of Pulsar as our compliance adviser will commence on the [REDACTED], and will end on the date on which our Group complies with Rule 18.03 of the GEM Listing Rules in respect of the financial results for the second full financial year after the [REDACTED] or until the agreement in respect of such appointment is terminated, whichever is earlier.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following person will, immediately after completion of the Capitalisation Issue and the [REDACTED] (without taking into account any Shares which may be issued upon the exercise of the [REDACTED] and any options which may be granted under the Share Option Scheme), have interests or short positions in the Shares or the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of its Subsidiaries.

Name of Shareholder	Nature of interest	Number of Shares immediately after completion of the Capitalisation Issue and the [REDACTED] ⁽¹⁾	Percentage of interest in our Company immediately after completion of the Capitalisation Issue and the [REDACTED]
DTTKF	Beneficial owner	[REDACTED] (L)	[REDACTED]
Ms. Kou ⁽²⁾	Interest in a controlled corporation	[REDACTED] (L)	[REDACTED]
Mr. Chan ^{(2) and (3)}	Interest of spouse	[REDACTED] (L)	[REDACTED]

Notes:

- (1) The letter “L” denotes the person’s long position in the Shares.
- (2) DTTKF is owned by Ms. Kou, Ms. Kou Luen, Mr. Chan, Mr. Chiu, Mr. Ko Yuen Fai, Mr. Ko Yuen Kwan, Mr. Ko Yuen San, Mr. Ko Yuen Sing, Ms. Kwok Lo Ming, Ms. Meng Li, Mr. Sze Tung, Mr. Yeung Tak Kuen and Mr. Chan Pui Chuen in the proportion of approximately 66.63%, 10.50%, 6.71%, 2.00%, 1.89%, 3.78%, 0.94%, 0.94%, 3.31%, 1.35%, 0.60%, 1.30% and 0.05%, respectively. Accordingly, Ms. Kou is deemed to be interested in all Shares held by DTTKF under the SFO.
- (3) Mr. Chan is the spouse of Ms. Kou. Under the SFO, Mr. Chan is deemed to be interested in the same number of Shares in which Ms. Kou is interested.

Save as disclosed above, our Directors are not aware of any other persons who will, immediately following completion of the Capitalisation Issue and the [REDACTED] (without taking into account any Shares which may be issued upon exercise of the [REDACTED] and any options which may be granted under the Share Option Scheme, have interests or short positions in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of its subsidiaries.

SHARE CAPITAL

SHARE CAPITAL

The following is a description of our authorised share capital and our share capital in issue and to be issued as fully paid or credited as fully paid immediately before and after the completion of the Capitalisation Issue and the [REDACTED]

(HK\$)

Authorised share capital

2,000,000,000	Shares of HK\$0.01 each	20,000,000
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Issued and to be issued, fully paid or credited as fully paid upon completion of the Capitalisation Issue and the [REDACTED]

19,500	Shares in issue as at the date of this document	195
[REDACTED]	Shares to be issued pursuant to the Capitalisation Issue	[REDACTED]
[REDACTED]	Shares to be issued pursuant to the [REDACTED]	[REDACTED]
[REDACTED]	Total	[REDACTED]

ASSUMPTIONS

The above table assumes that the [REDACTED] becomes unconditional and the issue of Shares pursuant to the Capitalisation Issue and the [REDACTED] are made, but takes no account of any Shares which may be issued or repurchased by us pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at least 25% of the total issued share capital of our Company must at the time of the [REDACTED] and at all times thereafter be held by the public. The [REDACTED] represent [REDACTED] of the issued share capital in hands of the public (as defined in the GEM Listing Rules) upon [REDACTED].

RANKING

The [REDACTED] will rank equally in all respects with all other Shares in issue as mentioned in this document, and in particular, will rank equally in full for all dividends and other distributions declared, paid or made on the Shares after the date of this document.

SHARE CAPITAL

GENERAL MANDATE TO ISSUE SHARES

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value not exceeding the sum of:

- (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the [REDACTED]; and
- (ii) the aggregate nominal amount of the share capital of our Company repurchased by us (if any) pursuant to the general mandate to repurchase Shares as described below.

This mandate will expire at the earliest of:

- (i) the conclusion of our next annual general meeting;
- (ii) the expiration of the period within which our next annual general meeting is required by the Memorandum of Association and the Articles of Association or any applicable laws to be held; and
- (iii) the day on which such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting.

Particulars of this general mandate to allot, issue and deal with Shares are set out under the paragraph headed “A. Further information about our Company and the subsidiaries — 4. Written resolutions of our sole Shareholder” in Appendix V to this document.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal amount of not more than 10% of the total nominal amount of the share capital of our Company in issue immediately following the completion of the Capitalisation Issue and the [REDACTED].

This mandate relates only to repurchases made on the Stock Exchange or any other stock exchange on which the Shares may be [REDACTED] and which is recognised by the SFC and the Stock Exchange for this purpose, and which are made in accordance with the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the paragraph headed “A. Further information about our Company and the subsidiaries — 4. Written resolutions of our sole Shareholder” in Appendix V to this document.

SHARE CAPITAL

This mandate will expire at the earliest of:

- (i) the conclusion of our next annual general meeting;
- (ii) the expiration of the period within which our next annual general meeting is required by the Memorandum of Association and the Articles of Association or any applicable laws to be held; and
- (iii) the day on which such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting.

Particulars of this general mandate to repurchase Shares are set out under the paragraph headed “A. Further information about our Company and the subsidiaries — 4. Written resolutions of our sole Shareholder” in Appendix V to this document.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

As a matter of the Companies Law, an exempted company is not required by law to hold any general meetings or class meetings. The holding of general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, we will hold general meetings as prescribed for under our Articles and the Memorandum of Association, a summary of which is set out in Appendix IV to this document.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme, the major terms of which are set out in the paragraph headed “D. Share Option Scheme” in Appendix V to this document.

FINANCIAL INFORMATION

*You should read the following discussion and analysis in conjunction with our audited consolidated financial statements, including the notes thereto, as included in the Accountants’ Report set out in Appendix I to this document (the “**Financial Information**”). Our Financial Information has been prepared in accordance with HKFRSs. You should read the entire Accountants’ Report and not merely rely on the information contained in this section.*

The following discussion and analysis contain certain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and projections depend on a number of risks and uncertainties over which we do not have control. For further information, please refer to the sections headed “Forward-Looking Statements” and “Risk Factors” in this document.

Unless the context otherwise requires, financial information disclosed in this section is described on a consolidated basis.

OVERVIEW

Founded in the early 1970s, we are a well-established securities broker in the Hong Kong financial services industry. 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. 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 margin financing services to our clients to facilitate them to purchase securities on the secondary market or short-term IPO financing to apply for IPO shares in return for interest income. We also generate interest income from our cash account clients on their overdue debit balance.

FINANCIAL INFORMATION

- **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.

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

BASIS OF PRESENTATION

Our Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands on 22 August 2016. In preparing of the [REDACTED], we underwent the Reorganisation, as detailed in the section headed “History, Development and Reorganisation” in this document. As a result of the Reorganisation, our Company became the holding company of the subsidiaries comprising us.

The financial information relating to us has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the HKICPA. We have adopted all HKFRSs effective for the accounting period commencing from 1 January 2017 in the preparation of the financial information contained in this document throughout the Track Record Period. All intra-group transactions and balances have been eliminated on consolidation. For more information on the basis of presentation and preparation of the financial information included in this section, please see notes 2.1 and 2.2 to the Accountants’ Report in Appendix I to this document for details.

PRINCIPAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business and results of operations have been, and are expected to be, affected by the number and size of the transactions undertaken by our clients. In addition, our business focuses on the Hong Kong market. Therefore, our Directors consider that the principal factors affecting our operations include the following:

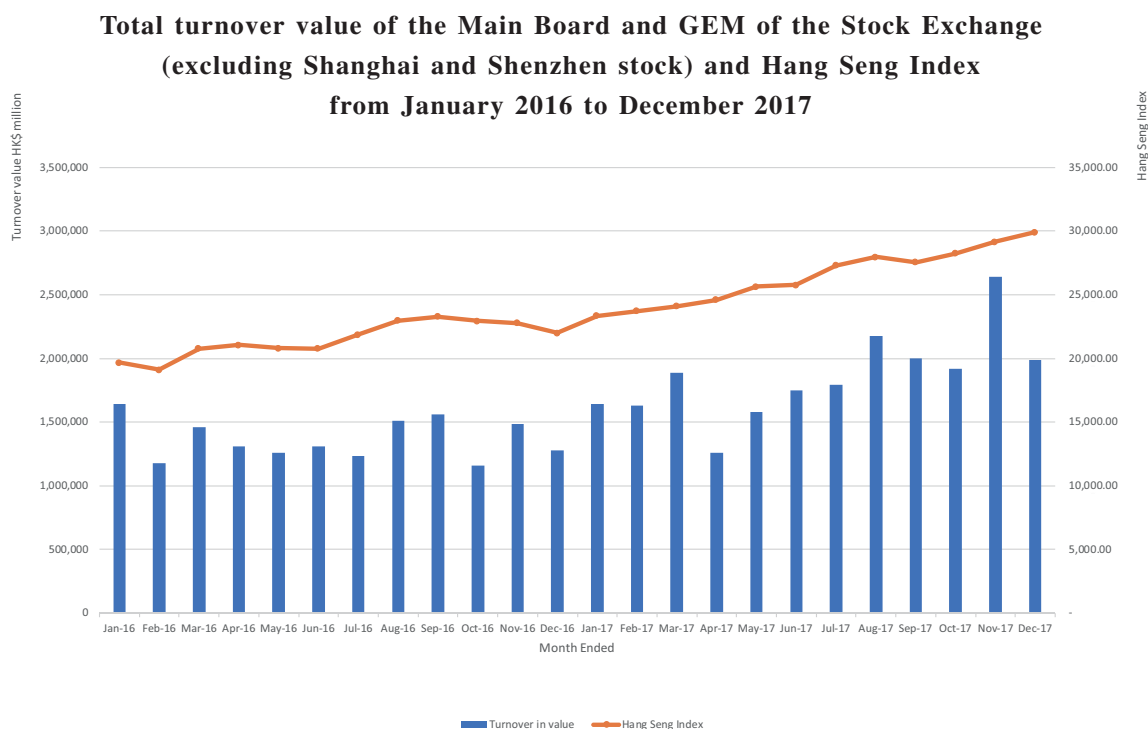
The performance of the securities market in Hong Kong

The Main Board and GEM are the two markets operated by the Stock Exchange for securities trading. The Main Board provides a platform for the trading of securities of larger and more established companies while GEM provides a platform for the trading of securities of growth companies. The trading turnover of the Hong Kong securities market fluctuated during the past few years. There was a downturn of trading turnover in 2008 and 2009 due to the global financial tsunami which took place in the second half of 2008. The trading turnover in 2012 reached the bottom and amounted to HK\$13,301 billion as a result of the uncertainties arising from the European debt crisis. IPO market also experienced a similar trend that the total fund raised from IPO dropped significantly in 2008 (only HK\$66 billion) and 2012 (only HK\$90 billion).

FINANCIAL INFORMATION

Our revenue is highly dependent on the activeness of the securities market in Hong Kong. With the unstable and unpredictable market conditions, our financial performance may be volatile. Notwithstanding we recorded an increase in revenue for the year 2017 as compared to the year 2016, our financial performance for the year ending 31 December 2018 will probably still be dependent on the sentiments of the Hong Kong securities market in 2018.

The following chart shows the monthly turnover value of the Main Board and GEM of the Stock Exchange (excluding Shanghai and Shenzhen stocks) and Hang Seng Index during the Track Record Period:



Source: HKEx Monthly Market Highlights

The intensity of competition in Hong Kong

The rapid increase in trading turnover of the Hong Kong stock market from 2002 to 2007 had created a strong demand for services in the local brokerage industry. The entry of new participants in recent years has however led to intense competition in the industry. As at 31 December 2017, there were 622 trading Stock Exchange participants. Assuming all other factors remain unchanged, our turnover improves if we increase our market share and expand our client base.

FINANCIAL INFORMATION

The fluctuation of interest rates

In general, an increase in interest rates may positively or adversely affect investors’ appetite to invest in the securities market, and thereby affect market sentiment, which may in turn affect our results of operations. U.S. 10-year Treasury Bonds yield rose to over 2.88% on 2 February 2018, sparking turmoil in the global stock markets. Market expectation on interest rate hike led to investors selling off fixed income securities.

The changes in the laws and regulations governing the securities industry in Hong Kong

Changes in the laws and regulations governing the securities industry in Hong Kong, such as those relating to the brokerage commission structure, may affect our revenue. Changes in the amount of liquid capital requirements for our business may affect the volume and size of transactions that we can conduct. These may in turn affect our revenue. In addition, changes in other relevant laws (for example the Companies Ordinance and the SFO) and regulations (for example the Listing Rules, the GEM Listing Rules and the Takeovers Code) may affect listed companies’ abilities to conduct corporate exercises, such as fund-raising in the primary market, including IPOs, and secondary market equity fund-raising.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies and estimates refer to those accounting policies and estimates that entail significant uncertainty and judgment, and could yield materially different results under different conditions and/or assumptions. The preparation of the financial information in conformity with HKFRSs requires our management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The methods and approaches that we use in determining these items are based on our experience, the nature of our business operations, the relevant rules and regulations and the relevant circumstances. These underlying assumptions and estimates are reviewed regularly as they may have a significant impact on our operational results as reported in our consolidated financial statements included in this document.

The financial information has been prepared under the historical cost convention except for investment properties, land and buildings held for own use classified as property, plant and equipment and financial assets at fair value through profit or loss which have been measured at fair value. It also requires our Directors to make judgments, estimates and assumptions concerning the future. The judgments, estimates and assumptions are based on historical experience and other factors that are considered to be relevant. The actual results may differ from these estimates.

We have identified certain accounting policies and estimates that we believe are the most critical to the preparation of our consolidated financial statements and the understanding of our results of operations and financial position. Our critical accounting policies and estimates are set out in details in Notes 2.4 and 3, respectively, to the Accountants’ Report set out in Appendix I to this document.

FINANCIAL INFORMATION

SUMMARY RESULTS OF OPERATION

The table below sets out our consolidated statements of profit or loss for each of the years 2016 and 2017:

	31 December	
	2016	2017
	HK\$	HK\$
Revenue	30,234,835	56,433,162
Other income and gains/(losses), net	<u>3,189,133</u>	<u>7,912,341</u>
	33,423,968	64,345,503
Commission expenses	(3,696,937)	(7,027,489)
Depreciation	(1,757,107)	(2,113,746)
Staff costs	(10,057,423)	(15,336,578)
Other operating expenses	(7,842,403)	(17,068,586)
Finance costs	<u>(1,207,427)</u>	<u>(1,570,457)</u>
Profit before tax	8,862,671	21,228,647
Income tax expense	<u>(1,768,473)</u>	<u>(3,575,564)</u>
Profit for the year	<u><u>7,094,198</u></u>	<u><u>17,653,083</u></u>

DESCRIPTION AND COMPARISON OF PRINCIPAL ITEMS IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Revenue

During the Track Record Period, provision of securities broking services has been our core business segment and revenue generated from this segment represented a significant portion of our total revenue and other income during the Track Record Period. 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. We also provide financing services and asset management services in Hong Kong to cater for our clients' specific needs.

FINANCIAL INFORMATION

Revenue by business segment

The table below sets out the breakdown of our revenue derived from each business segment during the Track Record Period:

	31 December			
	2016		2017	
	<i>HK\$</i>	<i>% of revenue</i>	<i>HK\$</i>	<i>% of revenue</i>
Securities broking services	23,832,126	78.8	46,937,968	83.2
Financing services	5,685,918	18.8	7,267,365	12.9
Asset management services	716,791	2.4	2,227,829	3.9
Total:	<u>30,234,835</u>	<u>100.0</u>	<u>56,433,162</u>	<u>100.0</u>

Comparison between FY2016 and FY2017

Our total revenue increased by HK\$26.2 million or 86.6% from HK\$30.2 million for the year 2016 to HK\$56.4 million for the year 2017. Such increase was mainly due to a substantial increase in income from our securities broking services for the year 2017 as compared to the previous year.

Securities broking services

The below table sets out the breakdown of revenue from our securities broking services during the Track Record Period:

	31 December			
	2016		2017	
	<i>HK\$</i>	<i>% of revenue</i>	<i>HK\$</i>	<i>% of revenue</i>
Commission and brokerage income	20,155,562	84.6	35,405,745	75.4
Placing commission	—	0.0	4,759,807	10.1
Others ^(Note)	3,676,564	15.4	6,772,416	14.5
Total:	<u>23,832,126</u>	<u>100.0</u>	<u>46,937,968</u>	<u>100.0</u>

Note: Others comprises (i) handling fee income and (ii) interest income from our deposits.

FINANCIAL INFORMATION

Comparison between FY2016 and FY2017

Revenue from our securities broking services increased by HK\$23.1 million or 97.0% from HK\$23.8 million for the year 2016 to HK\$46.9 million for the year 2017. Such increase was mainly due to the increase in the commission and brokerage income by HK\$15.3 million or 75.7%, which in turn was mainly attributable to the increase in the trading turnover of our clients in the year 2017.

Revenue from our placing services primarily consisted of commission fees from underwriting of debt securities for listed clients. Revenue from our placing services increased by HK\$4.8 million from nil for the year 2016 to HK\$4.8 million for the year 2017. Such increase was mainly due to the commencement of our placing services during the year 2017.

The increase in others was mainly due to the increase in the handling fee income, which in turn was due to the increase in the number of high volume day trading clients from 29 in the year 2016 to 38 in the year 2017.

Financing services

Revenue from our financing services primarily consisted of interest income from our clients.

Comparison between FY2016 and FY2017

Revenue from our financing services increased by HK\$1.6 million or 27.8% from HK\$5.7 million for the year 2016 to HK\$7.3 million for the year 2017. Such increase was in line with the increase in the daily average outstanding loan balance, reflecting a positive market sentiment in the Hong Kong market has attracted investors leveraging their investment return by borrowing margin loan.

Asset management services

Revenue from our asset management services primarily consisted of management and performance fees.

Comparison between FY2016 and FY2017

Revenue from our asset management services increased by HK\$1.5 million or 210.8% from HK\$0.7 million for the year 2016 to HK\$2.2 million for the year 2017. Such increase was mainly due to recognition of performance fees of HK\$1.4 million for the year 2017 compared to HK\$0.3 million for the year 2016, during which the Hang Seng Index has risen from about 22,000 points to 29,919 points.

FINANCIAL INFORMATION

Other income and gains or losses

The table below sets out the breakdown of our other income and gains or losses during the Track Record Period:

	31 December	
	2016	2017
	<i>HK\$</i>	<i>HK\$</i>
Gross rental income	531,000	531,000
Fair value (losses)/gains on financial assets designated at fair value through profit or loss (“FVTPL”)	(765,528)	2,564,973
Dividend income from listed investments	253,565	253,865
Revaluation gains on investment properties	1,300,000	4,500,000
Gain/(loss) on disposal of items of property, plant and equipment	550	(796)
Consultancy fee income	986,674	—
Other interest income	737,100	—
Sundry income	145,772	63,299
Total:	<u>3,189,133</u>	<u>7,912,341</u>

Comparison between FY2016 and FY2017

The overall amount increased by HK\$4.7 million or 148.1% from HK\$3.2 million for the year 2016 to HK\$7.9 million for the year 2017. Such increase was mainly due to the revaluation gain amounting to HK\$4.5 million for the year 2017 on investment properties, as compared to a gain of HK\$1.3 million recognised in the year 2016; and the fair value gain amounting to HK\$2.6 million for the year 2017 on financial assets at FVTPL, as compared to a loss of HK\$0.8 million recognised in the year 2016. The above effect was offset by the reduction of consultancy fee income of HK\$1.0 million and other interest income of HK\$0.7 million for the year 2017.

Commission expenses

Our commission expenses primarily consisted of brokerage commissions paid to licensed employees and self-employed account executives.

Comparison between FY2016 and FY2017

Our commission expenses increased by HK\$3.3 million or 90.1% from HK\$3.7 million for the year 2016 to HK\$7.0 million for the year 2017. Such increase was in line with the increase in our commission and brokerage income of 75.7% and was partly due to the commission expenses paid for generation of placing commission income for the year 2017.

FINANCIAL INFORMATION

Staff costs

The table below sets out the breakdown of our staff costs during the Track Record Period:

	31 December	
	2016	2017
	<i>HK\$</i>	<i>HK\$</i>
Salaries, allowances and benefits in kind	9,528,441	14,746,868
Contributions to MPF and ORSO schemes	528,982	589,710
Total:	<u>10,057,423</u>	<u>15,336,578</u>

Comparison between FY2016 and FY2017

Our staff costs increased by HK\$5.3 million or 52.5% from HK\$10.1 million for the year 2016 to HK\$15.3 million for the year 2017. Such increase was mainly due to the increase in bonuses paid to staff and an increase in the number of staff from 31 in the year 2016 to 37 in the year 2017.

Other operating expenses

The table below sets out the breakdown of our other operating expenses during the Track Record Period:

	31 December	
	2016	2017
	<i>HK\$</i>	<i>HK\$</i>
Exchange and clearing fee	1,132,837	3,898,204
Information services expenses	1,720,993	2,082,913
Direct operating expenses arising from rental-earning investment properties	18,013	12,686
Direct operating expenses arising from leasehold land and buildings	260,445	335,237
Direct operating expenses arising from leased office premises	12,223	22,606
Operating lease payments in respect of office premises	196,524	526,719
Provision/(reversal of provision) for loss on guaranteed contracts with clients	384,802	(151,843)
Provision for long service payments	39,719	34,174
Auditor's remuneration	295,000	302,000
[REDACTED]	[REDACTED]	[REDACTED]
Insurance expenses	166,153	272,440
Entertainment and staff welfare expenses	1,308,854	1,506,118
Bank charges	223,735	302,494
Marketing expenses	80,759	538,817
Foreign exchange gain, net	(19,095)	(442,579)
Administrative expenses	955,668	1,166,396
Miscellaneous expenses	650,496	599,730
Total:	<u>[REDACTED]</u>	<u>[REDACTED]</u>

FINANCIAL INFORMATION

Comparison between FY2016 and FY2017

Our other operating expenses increased by HK\$9.2 million or 117.6% from HK\$7.8 million for the year 2016 to HK\$17.1 million for the year 2017. Such increase was mainly due to the increase in exchange and clearing fee by HK\$2.8 million, which in turn was attributable to the increase in our clients' trading volume mainly in the Hong Kong market; and the increase in [REDACTED] by [REDACTED], offset by the increase in the net foreign exchange gain by [REDACTED] and the reversal of provision for loss on guaranteed asset management contracts by [REDACTED] instead of a provision for loss of [REDACTED] in the year 2016.

We were subject to three loss protection discretionary account management agreements for asset management services provided for each of the years 2016 and 2017. The amount of the provision for loss on those guaranteed contracts with clients is estimated based on the fair value of the portfolio of assets held at the end of the Relevant Periods. One guaranteed contract has expired in the year 2017. The remaining two guaranteed contracts are expected to expire on 23 April and 18 August 2018, respectively.

Finance costs

The table below sets out the breakdown of our finance costs during the Track Record Period:

	31 December	
	2016	2017
	<i>HK\$</i>	<i>HK\$</i>
Interest expense on bank loans and overdrafts	1,157,106	1,495,882
Interest expense on client payables with no fixed repayment terms	<u>50,321</u>	<u>74,575</u>
Total:	<u><u>1,207,427</u></u>	<u><u>1,570,457</u></u>

Comparison between FY2016 and FY2017

Our finance cost increased by HK\$0.4 million or 30.1% from HK\$1.2 million for the year 2016 to HK\$1.6 million for the year 2017. Such increase was mainly due to the increase in our bank borrowings which were mainly for funding our margin financing business.

Income tax expense

We are subject to Hong Kong profits tax at the rate of 16.5% on the estimated assessable profit during the Track Record Period. Our effective tax rates (representing our income tax dividing our profit before tax for the corresponding year) for the years 2016 and 2017 were 20.0% and 16.8% respectively.

Comparison between FY2016 and FY2017

Our income tax expense increased by HK\$1.8 million or 102.2% from HK\$1.8 million for the year 2016 to HK\$3.6 million for the year 2017. The increase was mainly due to the increase in profit before tax by HK\$12.4 million from HK\$8.9 million for the year 2016 to HK\$21.2 million for the year 2017.

FINANCIAL INFORMATION

Profit for the year

Comparison between FY2016 and FY2017

Our net profit increased by HK\$10.6 million or 148.8% from HK\$7.1 million for the year ended 31 December 2016 to HK\$17.7 million for the year 2017. Our net profit margin increased from 23.5% for the year 2016 to 31.3% in 2017. The increase in net profit was mainly due to (i) increase in brokerage income mainly derived from securities dealing by our clients in the Hong Kong market; (ii) placing commission income we derived from placing of debt securities as a placing agent for listed clients; (iii) revaluation gains on investment properties which were capital in nature and not subject to Hong Kong profits tax.

The increase in the net profit margin was mainly due to the increase in net profit resulting from the increased revenue for the year 2017. Due to the nature of our business, our major expenses are to a large extent fixed in nature (except for expenses directly correlated to trading turnover of our client such as commission expenses). Accordingly, an increase in our revenue will normally have a positive impact on our net profit margin.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to satisfy our working capital needs. Our working capital needs have been financed through funds generated from operations and bank borrowings. As at 31 December 2016 and 2017, we had cash and bank balances of HK\$8.2 million and HK\$9.0 million, respectively. Going forward, we expect to fund our working capital and other capital requirements with a combination of various sources, including but not limited to cash generated from our operations and the [REDACTED] from the [REDACTED].

The table below sets out a condensed summary of our consolidated statements of cash flow for the Track Record Period. Such summary of the consolidated statements of cash flow is extracted from the Accountants' Report set out in the Appendix I to this document and should be read in conjunction with the entire financial information included therein, including the notes thereto.

	31 December	
	2016	2017
	HK\$	HK\$
Cash flow generated from operating activities before changes in working capital and taxes paid	<u>11,373,099</u>	<u>17,368,390</u>
Net cash flows from operating activities	35,961,765	2,069,734
Net cash flows from investing activities	405,098	24,230,699
Net cash flows used in financing activities	<u>(32,957,106)</u>	<u>(25,495,882)</u>
Net increase in cash and cash equivalents	3,409,757	804,551
Cash and cash equivalents at beginning of year	<u>4,784,981</u>	<u>8,194,738</u>
Cash and cash equivalents at end of year	<u>8,194,738</u>	<u>8,999,289</u>

FINANCIAL INFORMATION

Cash flow from operating activities

Net cash flow from or used in our operating activities reflects our profit being adjusted mainly for the non-cash items (such as depreciation, revaluation gains on investment properties, movement of provision for loss on guaranteed contracts with clients etc.) and the effects of cash flows arising from the movements in working capital such as changes in trade receivables, prepayment and other receivables, trade payables, etc.

For the year 2016, our net cash from operating activities was HK\$36.0 million. Such amount was derived from our profit before income tax expense generated from our operations of HK\$8.9 million, mainly positively adjusted for the decrease in prepayment and other receivables by HK\$26.1 million due to the full repayment of a facility loan granted to Victory Financial Group Company Limited by HK\$24.0 million and increase in trade payables by HK\$25.0 million mainly due to net sale transactions executed by our securities brokerage clients but not yet settled by us as at the year-end dates, partially offset by increase in trade receivables by HK\$21.5 million mainly due to increase in net sale transactions executed by our securities brokerage clients but not yet settled by various external brokers of approximately HK\$9.5 million and increase in receivables due from clearing house HK\$11.7 million as at the year-end dates.

For the year 2017, our net cash from operating activities amounted to HK\$2.1 million. Such amount was derived from our profit before income tax expense of HK\$21.2 million, mainly negatively adjusted for the revaluation gains on investment properties of HK\$4.5 million, increase in trade receivables by HK\$187.5 million, gains on financial assets at fair value through profit or loss of HK\$2.6 million, increase in prepayment and other receivables of HK\$1.9 million, and partially offset by increase in trade payables by HK\$171.7 million, increase in other payables and accruals of HK\$2.6 million. The significant increase in trade receivables and trade payables was mainly due to the significant increase in client money. A client deposited approximately HK\$195.0 million in the securities accounts opened with us. Pursuant to client’s instructions, we in turn placed all the client money with an external broker providing a platform for securities trading on the exchanges in the United States. As at the Latest Practicable Date, approximately HK\$176.6 million of the client money was transferred back to our client. For further information, please refer to the paragraph headed “Trade payables” below in this section.

Cash flow from investing activities

During the Track Record Period, our cash outflow from or used in investing activities was principally the result of the purchases of financial assets at FVTPL and proceeds from disposal of financial assets at FVTPL.

Net cash from investing activities was HK\$0.4 million for the year 2016. This was mainly due to the proceeds from disposal of available-for-sale financial assets of HK\$0.4 million.

For the year 2017, our net cash from investing activities of HK\$24.2 million was mainly attributable to the proceeds from disposal of a self-occupied property of HK\$11.0 million and an investment property of HK\$14.5 million.

FINANCIAL INFORMATION

Cash flow from financing activities

During the Track Record Period, our cash flow from or used in financing activities mainly included repayment of bank borrowings and dividends paid, which was offset by new bank borrowings.

Net cash used in financing activities of HK\$33.0 million for the year 2016 was mainly the combination of net repayment of bank borrowings of HK\$8.0 million, dividends paid of HK\$20.8 million and repayment of subordinated loan of HK\$3 million.

For the year 2017, the net cash used in financing activities of HK\$25.5 million was mainly attributable to the net repayment of bank borrowings of HK\$9.5 million and dividends paid of HK\$14.5 million.

NET CURRENT ASSETS

The table below sets out the breakdown of our current assets and current liabilities as at the dates indicated:

	31 December		30 April
	2016	2017	2018
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
			<i>(unaudited)</i>
CURRENT ASSETS			
Trade receivables	136,692,766	324,145,933	273,301,790
Financial assets at fair value through profit or loss	9,308,105	12,970,426	10,331,467
Prepayment and other receivables	1,938,369	3,840,033	3,910,691
Tax recoverable	328,655	—	—
Cash and cash equivalents	<u>8,194,738</u>	<u>8,999,289</u>	<u>8,373,473</u>
Total current assets	<u>156,462,633</u>	<u>349,955,681</u>	<u>295,917,421</u>
CURRENT LIABILITIES			
Trade payables	31,887,888	203,615,931	17,514,080
Other payables and accruals	3,069,010	5,680,870	2,605,798
Provisions	1,762,807	1,645,138	1,594,536
Bank borrowings	57,000,000	47,500,000	180,281,270
Tax payable	<u>—</u>	<u>3,068,427</u>	<u>3,068,427</u>
Total current liabilities	<u>93,719,705</u>	<u>261,510,366</u>	<u>205,064,111</u>
NET CURRENT ASSETS	<u>62,742,928</u>	<u>88,445,315</u>	<u>90,853,310</u>

FINANCIAL INFORMATION

Our current assets as at 31 December 2016 and 2017 mainly comprised trade receivables, financial assets at FVTPL, prepayment and other receivables and cash and cash equivalents. Our current liabilities mainly comprised bank borrowings and trade payables.

Our net current assets increased from HK\$62.7 million as at 31 December 2016 to HK\$88.4 million as at 31 December 2017. The increase was primarily due to (i) the increase in trade receivables by HK\$187.5 million, (ii) net repayment of bank borrowings by HK\$9.5 million, and offset by the increase in trade payables by HK\$171.7 million. The significant increase in trade receivables and trade payables was mainly due to the increase in client money. A client deposited approximately HK\$195.0 million in the securities accounts opened with us. Pursuant to client’s instructions, we in turn placed all the client money with an external broker who provides a platform for securities trading on the exchanges in the United States. As at the Latest Practicable Date, approximately HK\$176.6 million of the client money was transferred back to our client. For further information, please refer to the paragraph headed “Trade payables” below in this section.

DESCRIPTION AND ANALYSIS OF PRINCIPAL ITEMS IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Trade receivables

The table below sets out the breakdown of trade receivables as at the dates indicated:

	31 December	
	2016	2017
	HK\$	HK\$
Margin client receivables	80,090,708	96,225,363
Cash client receivables	22,116,055	19,903,965
Clearing house receivables	11,867,207	7,369,383
Broker receivables	<u>22,618,796</u>	<u>200,647,222</u>
Total:	<u>136,692,766</u>	<u>324,145,933</u>

Margin client receivables relate to securities purchases on credit by clients having margin accounts with us. The margin loans, repayable to us on demand, are normally pledged with securities as collateral to us. There is no specific repayment term for margin loans. The amount of credit facilities granted to margin clients is determined by the discounted value of securities we accept. The increase in our margin client receivables was in line with the increase in our provision of margin financing. As at 31 December 2016 and 2017, the total market values of securities pledged as collateral in respect of the margin loans were HK\$251.7 million and HK\$349.3 million, respectively, which represented a loan-to-value ratio of 31.8% and 27.5%, respectively. The loan-to-value ratio is calculated as margin loan balance as at 31 December 2016 and 2017 divided by the market value of securities pledged to us as at the same date.

FINANCIAL INFORMATION

Due to the nature of margin loans, margin client receivables were included in the "neither past due nor impaired" category. The ageing and subsequent settlement status of such receivables as at a particular date is of no significance and not applicable.

Cash client receivables relate to purchase transactions by clients that are executed but not yet settled in cash pursuant to the T+2 settlement basis. For cash client balances not settled 2 days after execution of transactions, we charge overdue interests at interest rates normally at the same rate as margin financing interest rates. The fluctuation of our cash client receivables as at 31 December 2016 and 2017 was mainly driven by trading activities of our cash clients in the last two trade days before the respective dates. Cash client receivables is comprised of cash accounts receivable and rolling balance accounts receivable. As long as a client conducts trades and makes settlement of the outstanding balance via his cash account, it would either lead to a debit balance (seen by a negative balance in the account), credit balance (seen by a positive balance in the account), or zero balance. At certain times, a client may have already settled a negative balance by means of sales of securities or deposits of money, which made the cash account balance positive or zero balance. It means that the account has been "fully settled". However, afterwards, this client may make further purchases, possibly leading to a negative balance. In the event the client has a negative balance after T+5 of the original purchase transaction, Victory Securities (HK) will normally request the client to open a rolling balance account or a margin account whereupon the market value of the client portfolio will be monitored closely in line with Victory Securities (HK)'s margin call policy and procedures. In rare circumstances where the client's outstanding balance remained unsettled notwithstanding the collection effort undertaken, the relevant licensed employees or account executives will be required to indemnify Victory Securities (HK) in accordance with the terms of their contracts with Victory Securities (HK).

Out of the total cash accounts receivable of HK\$5.0 million as at 31 December 2017, HK\$4.6 million had been subsequently settled as at the Latest Practicable Date. There is no ageing analysis for the rolling balance accounts since it does not involve the concept of "past due".

Clearing house receivables represent the amount receivable from CCASS for net-sale transactions executed by clients but not yet settled in CCASS pursuant to the T+2 settlement basis. The fluctuation of our clearing house receivables as at 31 December 2016 and 2017 was mainly driven by trading activities of our clients in the last two trade days before the respective dates. Such clearing house receivables will be settled on the second business day after the respective net-sale transactions.

FINANCIAL INFORMATION

The ageing analysis of trade receivables arising from cash clients and clearing house at the end of each of the Relevant Periods are as follows:

	31 December	
	2016	2017
	HK\$	HK\$
Cash client receivables		
Neither past due nor impaired	21,589,019	18,475,868
Past due but not impaired		
– Less than 1 month past due	—	1,113,490
– Over 1 month but less than 3 months	9,419	945
– Over 3 month but less than 12 months	39,393	3,980
– Over 12 month but less than 2 years	36,850	6,283
– Over 2 years	441,374	303,399
	<u>22,116,055</u>	<u>19,903,965</u>
Clearing house receivables		
Neither past due nor impaired	<u>11,867,207</u>	<u>7,369,383</u>

Receivables that were past due but not impaired relate to a number of independent clients that have a good track record with us. In the opinion of our Directors, all the past due receivables are expected to be recovered within one year.

Broker receivables represent the deposits placed with various independent local and international brokers which provide brokerage services for securities traded on exchanges in the United States, Australia, Canada and Singapore. The increase in broker receivables as at 31 December 2016 and 2017 was mainly due to a client who deposited approximately HK\$195.0 million in securities accounts opened with us. Pursuant to client’s instructions, we in turn placed all the client money with our external brokers who provide a platform for securities trading on the exchanges in the United States. For further information, please refer to the paragraph headed “Trade payables” below in this section.

FINANCIAL INFORMATION

Financial assets at fair value through profit or loss

The table below sets out the breakdown of financial assets at fair value through profit or loss as at the dates indicated:

	31 December	
	2016	2017
	HK\$	HK\$
Investments designated at fair value through profit or loss:		
Listed equity securities — Hong Kong	9,308,105	12,970,426
	<i>(note 1)</i>	<i>(note 2)</i>

Notes:

1. comprised of 1 blue-chip security.
2. predominantly comprised of 1 blue-chip security. The remainder comprised of a Main Board listed security.

The increase in financial assets at FVTPL from HK\$9.3 million as at 31 December 2016 to HK\$13.0 million as at 31 December 2017 was mainly due to the unrealised gain on a blue-chip security and the acquisition of a Main Board listed security.

Prepayment and other receivables

The table below sets out the breakdown of prepayments and other receivables as at the dates indicated:

	31 December	
	2016	2017
	HK\$	HK\$
Prepayment, other debtors and deposits	1,114,730	1,863,723
[REDACTED]	[REDACTED]	[REDACTED]
Loans to employees ¹	798,946	—
Due from related companies	—	1,086 ²
Due from directors	24,500	—
Due from holding company	193	45,058 ²
Total:	[REDACTED]	[REDACTED]

Notes:

1. The loans were granted to employees under special circumstances such as funding a cardiac surgery, preparing for wedding matters, purchasing and renovation of property. The loans to employees were not trade in nature. The related policy in granting loans to employees is as follows: (i) the limit of the loan to each employee is HK\$500,000; (ii) the loan shall only be granted to employees who have outstanding performance and worked in the Group for over 3 years; and (iii) the loan shall only be granted under special circumstances which are considered appropriate by the board of directors of Victory Securities (HK). The term of the loans ranges from six months to five years and the loans are interest-free. This arrangement will not continue after [REDACTED] and the loans to employees have been fully repaid by all the relevant employees as at the Latest Practicable Date.
2. The amounts due from related companies and the holding company will be settled before the [REDACTED].

FINANCIAL INFORMATION

The increase in the overall balance from HK\$1.9 million as at 31 December 2016 to HK\$3.8 million as at 31 December 2017 was mainly due to (i) the recognition of deferred [REDACTED] of HK\$1.9 million as at 31 December 2017; (ii) the increase in the CCASS settlement deposits of HK\$0.7 million as at 31 December 2017 arising from the increase in trading volume of securities listed on the Stock Exchange, and eligible shares under Shanghai Connect and Shenzhen Connect; and offset by the loans to employees of HK\$0.8 million being fully repaid in the year 2017.

Cash and cash equivalents

Our cash and cash equivalents increased from HK\$8.2 million as at 31 December 2016 to HK\$9.0 million as at 31 December 2017. We receive and hold money deposited by our clients during the course of conducting our business, and maintain segregated accounts with banks to hold client money, which was not otherwise dealt with in our historical financial information for the Track Record Period. Client money increased from HK\$105.9 million as at 31 December 2016 to HK\$305.2 million as at 31 December 2017 mainly due to an increase in the deposit driven by increased number of securities broking clients and the increase in their trading volume.

Trade payables

The table below sets out the breakdown of trade payables as at the dates indicated:

	31 December	
	2016	2017
	HK\$	HK\$
Margin and cash client payables	26,127,425	202,025,329
Due to clearing house	<u>5,760,463</u>	<u>1,590,602</u>
Total:	<u><u>31,887,888</u></u>	<u><u>203,615,931</u></u>

Trade payables from margin and cash client payables relate to sale transactions by those clients that have been executed but not yet settled in cash pursuant to the T+2 settlement basis with the amount of money deposited in segregated accounts as at the dates indicated. The majority of the trade payables to clients are repayable on demand except where certain balances represent trades pending settlement or margin deposits and cash collateral received from clients for their trading activities. Only the amounts in excess of the required margin collateral are repayable on demand.

Trade payables due to clearing house relates to the amounts payable to CCASS for net-purchase transactions executed by our clients but not yet settled in CCASS pursuant to the T+2 settlement basis as at the dates indicated.

The increase in trade payables from HK\$31.9 million as at 31 December 2016 to HK\$203.6 million as at 31 December 2017 was mainly due to the increase in the client money, offset by the decrease in the clearing house payables by HK\$4.2 million arising from the decrease in the amount of client-executed purchase transactions not yet settled with the clearing house. A client deposited approximately HK\$195.0 million in securities accounts opened with us. The ultimate beneficial owner

FINANCIAL INFORMATION

of such client was a businessman with over 15 years’ experience in the securities and brokerage industry. Pursuant to client’s instructions, we in turn placed the fund with an external broker providing a platform for securities trading on the exchanges in the United States. As at the Latest Practicable Date, approximately HK\$176.6 million of the client money was transferred back to our client.

Our Group performed ‘know your client’ (“**KYC**”) and anti-money laundering (“**AML**”) related due diligence process to ascertain the client’s identity and background and origin of funds prior to accepting it as a client and the funds. The client completed our client trading agreement and professional investor evaluation questionnaire, which provides necessary information on the client’s identity and background. We also retained documentation in relation to the origin of funds. Based on the findings of the KYC and AML due diligence procedures, our Directors’ assessment of the client’s background and origin of funds, and the fact that the client was a referral from another brokerage house and the funds were transferred from banks in Hong Kong into Victory Securities (HK)’s bank account in Hong Kong, the Directors were not aware of, nor had any reasonable grounds to believe that the transactions with the client involved any money laundering or other illegal activities.

We have also engaged an independent internal control advisor to conduct a review of our Group’s KYC and AML due diligence process on the said client in February 2018. The internal control advisor has not raised any material issue in its report relating to our KYC and AML due diligence process in relation to the said client.

Having conducted its own due diligence on the client and having considered the findings of the independent internal control advisor, the Sponsor concurs with the Directors’ conclusion that they were not aware of, nor had any reasonable grounds to believe that the transactions with the client (i.e. the deposits of HK\$195 million in its securities accounts opened with the Group) involved any money laundering or other illegal activities.

Other payables and accruals

The table below sets out the breakdown of our other payables and accruals during the Track Record Period:

	31 December	
	2016	2017
	HK\$	HK\$
Other payables and accruals	2,903,880	5,680,870
Due to related companies	45,130	—
Due to directors	120,000	—
Total:	<u>3,069,010</u>	<u>5,680,870</u>

Our other payables and accruals mainly comprised the accrued operating expenses including staff’s year-end bonus, fund managers’ bonus, commission to account executives and trading fee and levy payables to the Stock Exchange. The increase in the overall balance by HK\$2.6 million from

FINANCIAL INFORMATION

HK\$3.1 million as at 31 December 2016 to HK\$5.7 million as at 31 December 2017 was mainly due to the (i) increase in the accrual of staff’s bonus of HK\$1.4 million; (ii) increase in the commission expenses payable to licensed employees and account executives of HK\$0.6 million; and (iii) increase in trading fee and trading levy payable to the Stock Exchange of HK\$0.8 million.

INDEBTEDNESS

Borrowings

The table below sets out the breakdown of our total borrowings as at the dates indicated:

	31 December		30 April
	2016	2017	2018
	HK\$	HK\$	HK\$
			(unaudited)
Secured:			
Variable rate bank borrowings	57,000,000	47,500,000	73,100,000
Unsecured bank borrowings ^{Note}	—	—	107,181,270

Note: Bank borrowing to facilitate IPO financing.

Secured variable rate bank borrowings

During the Track Record Period, our bank borrowings consisted of short-term bank loans. As at 31 December 2016 and 2017, we had drawn HK\$57.0 million and HK\$47.5 million, under our aggregate banking facilities of HK\$196.5 million and HK\$190 million, respectively. The decrease in our bank borrowings was primarily due to surplus cash and cash equivalents on hand which we utilised part of which to repay the bank borrowings.

Our bank borrowings as at 31 December 2016 and 2017 were secured by charges over margin clients’ pledged securities with fair value of HK\$70.9 million and HK\$71.5 million, respectively with client’s authorisation, as well as secured by charges over our own properties with fair value of HK\$76.2 million and HK\$58.0 million, respectively.

Ms. Kou guaranteed our aggregate banking facilities. All guarantees from Ms. Kou for our bank borrowings will be released upon the [REDACTED].

As at 30 April 2018, our variable rate borrowings increased to HK\$73.1 million from HK\$47.5 million as at 31 December 2017 primarily due to the increase in clients’ demand for our Group’s financial services and hence increased the demand for short-term bank loan. As at 30 April 2018, our aggregate banking facilities amounted to HK\$190.0 million.

The interest rate of our borrowings as at 31 December 2016 and 2017, ranged from one-week Hong Kong Interbank Offered Rate (“HIBOR”) plus 1.9% to 2.25%.

FINANCIAL INFORMATION

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

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

Our Directors also confirmed that as at the Latest Practicable Date, there are no material external debt financing, other than those already disclosed in this section and the possible renewal of the existing short-term bank loans that we may obtain from time to time for the purpose of provision of financing services to our clients.

Our Directors confirm that save as disclosed above and in the paragraph headed “Recent development and material adverse change” in this section, up to the Latest Practicable Date, there has been no material adverse change in our indebtedness since the Track Record Period.

WORKING CAPITAL

Historically, we have met our working capital and other liquidity requirements principally from cash generated from our operations and bank borrowings. After taking into account the cash flows from the operating activities and the existing financial resources available to us, and the estimated [REDACTED] from the issue of Shares under the [REDACTED], our Directors are of the opinion that we have sufficient working capital for its present requirements for at least the next twelve months from the date of this document.

KEY FINANCIAL RATIOS

The table below sets out our key financial ratios during the Track Record Period:

	31 December	
	2016	2017
Net profit margin before interest and tax (<i>Note 1</i>)	33.3%	40.4%
Net profit margin (<i>Note 2</i>)	23.5%	31.3%
Return on equity (<i>Notes 3 and 9</i>)	5.2%	12.3%
Return on total assets (<i>Notes 4 and 9</i>)	3.0%	4.3%

	31 December	
	2016	2017
	HK\$	HK\$
Current ratio (<i>Note 5</i>)	1.7	1.3
Quick ratio (<i>Note 6</i>)	1.7	1.3
Gearing ratio (<i>Note 7</i>)	42.0%	33.1%
Debt to equity ratio (<i>Note 8</i>)	36.0%	26.8%

FINANCIAL INFORMATION

Notes:

1. Net profit margin before interest and tax is calculated based on the net profit before interest and tax divided by total revenue for the year multiplied by 100%.
2. Net profit margin is calculated by dividing the net profit for the year by total revenue for the year and multiplied by 100%.
3. Return on equity equals to net profit for the year divided by total equity at the end of the year and multiplied by 100%.
4. Return on assets equals to net profit for the year divided by total assets at the end of the year and multiplied by 100%.
5. Current ratio is calculated based on the total current assets divided by the total current liabilities as at the end of the year.
6. Quick ratio is calculated based on the total current assets netting of inventories divided by the total current liabilities as at the end of the year.
7. Gearing ratio is calculated by dividing the sum of borrowings by the total equity as at the end of each year and multiplied by 100%.
8. Debt to equity ratio is calculated by netting off the sum of borrowings with cash and cash balances (but excluding restricted cash) then divided by the total equity as at the end of each year and multiplied by 100%.

Net profit margin before interest and tax and net profit margin

Our net profit margin before interest and tax increased from 33.3% for the year ended 31 December 2016 to 40.4% for the year ended 31 December 2017. Our net profit margin increased from 23.5% for the year ended 31 December 2016 to 31.3% for the year ended 31 December 2017.

The increase in the net profit margin before interest and tax, and our net profit margin, was mainly due to the increase in revenue for the year 2017. Due to the nature of our business, our major expenses are to a large extent fixed in nature (except for expenses directly correlated to trading turnover of our client, such as commission expenses and exchange and clearing fee). Accordingly, an increase in our revenue will have a positive impact on our net profit margin before interest and tax, and our net profit margin.

Return on equity

Our return on equity increased from 5.2% for the year ended 31 December 2016 to 12.3% for the year ended 31 December 2017 mainly due to an increase in net profit by 148.8%, whereas our overall equity increased by 5.7% only, leading to an increase in our return on equity.

Return on total assets

Our return on total assets increased from 3.0% for the year ended 31 December 2016 to 4.3% for the year ended 31 December 2017. The increase was mainly due to an increase in net profit by 148.8%, whereas our overall total assets rose by 74.4% only, leading to a rise in our return on total assets.

FINANCIAL INFORMATION

Current ratio and Quick ratio

Our quick ratio is the same as our current ratio, since we did not have any inventory during the Track Record Period. Our current ratio and quick ratio remained stable at 1.7 and 1.3 as at 31 December 2016 and 2017, respectively.

Gearing ratio

Our gearing ratio decreased from 42.0% as at 31 December 2016 to 33.1% as at 31 December 2017. The decrease was mainly due to the net repayment of bank borrowings of HK\$9.5 million and the increase in our overall equity by HK\$7.7 million during the year 2017.

Debt to equity ratio

Our debt to equity ratio decreased from 36.0% as at 31 December 2016 to 26.8% as at 31 December 2017. The decrease was mainly due to the net repayment of bank borrowings by HK\$9.5 million and the increase in our overall equity by HK\$7.7 million during the year 2017.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign exchange risk

Foreign exchange risk is the risk of loss due to adverse movements in foreign exchange rate relating to receivables/payables from/to foreign brokers and foreign currency deposits with banks. Our Directors consider that the currency risk is not significant as the assets and liabilities are mainly denominated in United States dollars and Hong Kong dollars.

We are mainly exposed to currency risk arisen from RMB. As at 31 December 2016 and 2017, if RMB had strengthened or weakened by 50 basis points against HK\$ with all other variables held constant, our profit before tax would have increased or decreased by HK\$31,000 and HK\$99,000, respectively, mainly as a result of foreign exchange impact arising from net position of RMB denominated assets and liabilities.

Cash flow and fair value interest rate risks

We monitor our interest rate exposure regularly to ensure that the underlying risk is monitored within an acceptable range. Most of our interest-bearing assets and liabilities are on a floating rate basis with maturity of one year or less. Interest rate risk primarily relates to the bank borrowings with variable interest rates which are collateralised by margin clients' securities.

As at 31 December 2016 and 2017, it is estimated that a general increase/decrease of 1% in interest rates, with all other variables held constant, would increase/decrease profit for the year and retained profits by HK\$531,000 and HK\$780,000, respectively.

FINANCIAL INFORMATION

Price risk

We are exposed to equity price risk through investments in equity securities. Our management manages the exposure by closely monitoring the portfolio of equity investments.

If the equity price of financial assets at fair value through profit or loss had been 5% higher/lower, with all other variables held constant, our profit after tax for the years ended 31 December 2016 and 2017 would have increased/decreased by HK\$465,000 and HK\$649,000, respectively.

Credit risk

Our exposure to credit risk was due to failure of the counter parties to discharge their obligation.

In order to minimise the credit risk, our management has delegated a team responsible to compile the credit and risk management policies, to approve credit limits and determine any debt recovery action on those delinquent receivables. In addition, we hold collateral to cover its credit risks associated with its trade receivables from margin clients and reviews the recoverable amount for each individual trade receivable to ensure that adequate allowance for impairment is made for irrecoverable amounts at the end of each Track Record Period. Our Directors consider that our credit risk is effectively controlled and significantly reduced.

At the end of 31 December 2016 and 2017, we have concentration of credit risk on trade receivables of 17% and 7%, respectively, of the total trade receivables due from the top five largest clients (excluding brokers); and 17% and 62%, respectively, of the total trade receivables due from an external broker, which is registered with the United States Securities and Exchange Commission as a broker dealer.

Liquidity risk

As part of its ordinary broking activities, we are exposed to liquidity risk arising from the timing difference between settlement with clearing house, brokers and clients. Our policy is to regularly monitor our liquidity requirements and in compliance with regulatory requirements, to ensure that we maintain sufficient reserves of cash, banking facilities and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meets our liquidity requirements in the short and longer term.

As at 31 December 2016 and 2017, our available unutilised bank overdrafts and revolving loan facilities aggregated to HK\$139.5 million and HK\$142.5 million, respectively.

OFF-BALANCE SHEET ARRANGEMENTS

During the Track Record Period and up to the Latest Practicable Date, except for the operating lease commitment set out above, we neither entered into any other off-balance sheet commitments to guarantee the payment obligations of any third parties nor any off-balance sheet financial guarantees.

FINANCIAL INFORMATION

RELATED PARTY TRANSACTIONS

During the Track Record Period, we had entered into certain related party transactions, details of which are set out in Note 37 to the Accountants’ Report set out in the Appendix I to this document. Our Directors confirm that these transactions were conducted on arm’s length basis, normal commercial terms and were no more favourable than terms available to Independent Third Parties, and are considered fair and reasonable.

Having considered that the amounts of these related party transactions are immaterial, our Directors are of the view that the aforesaid related party transactions did not distort our financial results during the Track Record Period or cause our Track Record Period results to be unreflective of our future performance.

PROPERTY INTERESTS

Particulars of our property interests are set out in Appendix III to this document. C S Surveyors Limited has valued the properties we own as at the Latest Practicable Date. A summary of valuations and valuation certificates issued by C S Surveyors Limited are included in Appendix III to this document.

CAPITAL EXPENDITURES

Historical capital expenditures

During the Track Record Period, our capital expenditures primarily comprised of expenditures on computer equipment and motor vehicles. We incurred capital expenditures of HK\$0.1 million and HK\$0.4 million for the years ended 31 December 2016 and 2017. We principally funded our capital expenditures through cash flow generated from operating activities before changes in working capital and taxes paid.

Planned capital expenditures

Save for the planned usage of the [REDACTED] from the [REDACTED] as disclosed in the section headed “Business Objectives and Future Plans” in this document, we had no material planned capital expenditures as at the Latest Practicable Date.

FINANCIAL INFORMATION

CONTRACTUAL OBLIGATIONS

As at 31 December 2016 and 2017, we had total future minimum lease payments under non-cancellable operating leases falling due as follows:

Operating lease arrangements

	31 December	
	2016	2017
	HK\$	HK\$
Within one year	551,000	480,000
In the second to fifth year inclusive	—	560,000
Total:	<u>551,000</u>	<u>1,040,000</u>

The operating lease commitments as at 31 December 2016 and 2017 mainly represented commitments for the rental of our offices in Sheung Wan. The tenancy of one Sheung Wan office expired in 2017, and we entered into a new tenancy of another Sheung Wan office premise of a higher monthly lease payment. The new tenancy will expire in 2020.

DISTRIBUTABLE RESERVES

As at 31 December 2017, we had retained earnings of HK\$8.7 million available for distribution to our then Shareholders.

DIVIDENDS

Pursuant to the resolutions passed at the board meeting of Victory Securities (HK), Victory Securities (HK) declared and paid cash dividends in an amount of HK\$20.8 million for the year 2016 and HK\$14.5 million for the year ended 31 December 2017 to all its then shareholders.

Pursuant to a shareholder’s resolution on 12 February 2018, we further declared dividends in the amount of HK\$8.0 million to our then shareholders.

After completion of the [REDACTED], our Shareholders will be entitled to receive dividends only when declared by our Directors. The payment and the amount of any future dividends will be at the discretion of our Directors and will depend on the future operations and earnings, capital requirements and surplus, general financial condition and other factors that our Directors deem relevant. As these factors and the payment of dividends is at the discretion of our Board, which reserves the right to change its plan on the payment of dividends, there can be no assurance that any particular dividend amount, or any dividend at all, will be declared and paid in the future. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

FINANCIAL INFORMATION

CONTINGENT LIABILITIES

As at 30 April 2018, being the latest practicable date for the purpose of this statement of indebtedness, we did not have any guarantees or other material contingent liabilities.

Our Directors confirm that, other than disclosed in this document, there had been no material change in our indebtedness and contingent liabilities since 30 April 2018 to the date of this document.

[REDACTED]

Our Directors are of the view that our financial results for the year ending 31 December 2018 are expected to be adversely affected by, among others, the [REDACTED] in relation to the [REDACTED], the nature of which is non-recurring. [REDACTED] directly attributable to issuing the [REDACTED] are recognised in equity, while other [REDACTED] are recognised as other operating expenses in our consolidated statements of profit or loss. The total [REDACTED] in relation to the [REDACTED], primarily consisting of fees paid or payable to professional parties and [REDACTED] payable to the [REDACTED], are estimated to be [REDACTED] (based on the mid-point of the indicative [REDACTED] range). Among the estimated total [REDACTED], (i) [REDACTED] is expected to be accounted for as a deduction from equity upon [REDACTED]; (ii) [REDACTED] is expected to be recognised as expenses in our consolidated statements of profit or loss, of which [REDACTED] and [REDACTED] was charged to the consolidated statements of profit or loss for the year 2016 and the year 2017 respectively.

Our Directors would like to emphasise that the amount of the [REDACTED] is a current estimate for reference only and the final amount to be recognised in our consolidated financial statements for the year ending 31 December 2018 is subject to adjustment based on audit and the then changes in variables and assumptions.

Prospective investors should note that our financial performance for the year ending 31 December 2018 is expected to be adversely affected by the estimated non-recurring [REDACTED] mentioned above, and may or may not be comparable to our financial performance in the past.

DISCLOSURE UNDER RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, there are no circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

EVENTS AFTER THE BALANCE SHEET DATE

For details of the events after 31 December 2017, being the date to which our latest audited financial information was prepared, see Note 39 to the Accountants' Report set out in the Appendix I to this document.

FINANCIAL INFORMATION

RECENT DEVELOPMENT AND MATERIAL ADVERSE CHANGE

The impact of the [REDACTED] disclosed in the paragraph headed [REDACTED] in this section on our consolidated income statement is expected to result in or have resulted in material adverse changes in our financial or trading position or prospect since 31 December 2017, being the date to which our latest audited financial information was prepared.

Save as disclosed in the paragraph headed [REDACTED] in this section, our Directors confirm that as at the date of this document, there had been no material adverse change in our financial or trading position or prospects since 31 December 2017, being the date to which our latest audited financial information was prepared and there had been no event since 31 December 2017 which would materially and adversely affect the information shown in our consolidated financial information included in the Accountants’ Report as set out in the Appendix I to this document.

Without taking into account the impact of non-recurring [REDACTED], we expect net profit for the year ending 31 December 2018 will decrease compared to the previous year due to a drop in fair value gains on financial assets at fair value through profit or loss due to depressed stock markets in 2018 compared to the previous year, a drop in revaluation gains on investment properties, a decrease in asset management fee from depressed stock markets in 2018 and rises in staff costs and other operating expenses in 2018 compared to the previous year.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

For more information about our unaudited pro forma adjusted consolidated net tangible assets, please refer to “Unaudited Pro Forma Financial Information” in Appendix II to this document.

BUSINESS OBJECTIVES AND FUTURE PLANS

BUSINESS OBJECTIVES AND FUTURE PLANS

As a result of strong economic growth of the PRC in the past few decades, the size of the middle class of the PRC has expanded rapidly, and with the gradual liberation of RMB as one of the global currencies, there is a tremendous demand for wealth management services to help high net worth PRC individuals better allocate their asset portfolio and diversify investment risk. Our Directors believe that Hong Kong is well placed to become a wealth management centre to serve the demand for wealth management services from high net worth PRC individuals. Hong Kong’s strong and well-regulated financial sector, well established legal system, and its geographical location give Hong Kong a unique advantage to bridge the PRC and international market. It is expected that Hong Kong will become the offshore wealth management hub of the PRC in the future.

With the launch of Shanghai Connect and Shenzhen Connect, PRC institutional investors play an increasingly important role in the Hong Kong capital markets. We therefore anticipate there will be a strong demand for our services from of high net worth PRC individuals and institutional investors in the future. We plan to position our Group as an integrated securities broker and focus our resources to target these two groups of core clients. In the case of PRC institutional investors, we plan to target small to medium sized PRC asset management firms and hedge funds instead of large fund houses and insurance companies that are already well served by other financial institutions in Hong Kong.

We believe that high net worth PRC individuals will demand for (a) financing service for a leveraged investment return, (b) wealth management service with tailored professional advice, and (c) sophisticated asset allocation system to diversify their investment risk. We believe small to medium sized PRC institutional investors will demand for (a) in-depth research to provide future forecast and market intelligence, (b) corporate finance service to provide placing subscription opportunities, and (c) trading system with higher order execution quality.

Many of our peers are listed companies in Hong Kong and offer employee share options to their senior management, especially those with high calibre and industry expertise. To compete with these listed peers, our Directors consider the [REDACTED] status is very important to enable us to recruit new talents and retain existing staff. For instance, we consider hiring a fund manager with good past performance is one of best way to attract new clients to join our asset management service. Most of these fund managers are already employed with good remuneration package and they would probably not leave their existing platforms without the offer of employee share options. We intend to use part of the [REDACTED] to enhance our asset management business. The [REDACTED] will be allocated to hiring experienced equity analysts to further enhance our research capability with the intention to deliver better investment performance. Therefore, we can attract more high-net-worth clients use our asset management services, expand our AUM, and hence management fee and performance fee income.

BUSINESS OBJECTIVES AND FUTURE PLANS

To cater for the different needs of high net worth PRC individuals and institutional clients, we intend to (i) enlarge the capacity of our financing services, (ii) upgrade our portfolio management system (“PMS”) and order management system (“OMS”), (iii) engage in proprietary trading; (iv) expand our client network with a focus on high net worth and institutional clients, (v) enter into the corporate finance advisory business and resuming the futures brokerage business, and (vi) enhance our research capabilities and asset management service. We also plan to engage in proprietary trading with the aim to increase returns on our investments by capturing low-risk opportunities while ensuring working capital sufficiency and protection of the principal. For further details of our business strategies, please refer to the paragraph headed “Business — Business strategies” in this document.

REASONS FOR THE [REDACTED]

Our Directors consider the [REDACTED] status can give us advantages such as (a) brand awareness and customer confidence; (b) recruitment and retention of professionals; and (c) additional funding for future development.

As a brokerage house with over 40 years of operations, we have accumulated a sizeable clientele and brand awareness among the local investors. At the same time, with in-depth understanding of the industry, our Directors recognise that the nature of the industry has been undergoing a thorough transformation with an increasing number of PRC investors commencing trading in the Hong Kong stock market. New PRC investors tend to open their stock accounts with big banks or listed companies in Hong Kong with sound financial background. Our Directors believe that without a sound brand name, it will be difficult for our Group to effectively compete with big banks or listed companies for new or potential clients.

Our Directors understand that image and reputation is quite significant for a securities brokerage house or a financial institution in general. Being a listed brokerage house will also help bring greater transparency through quarterly financial reporting, higher standards of disclosure and stricter internal control. A transparent corporate image will potentially make it easier for our Group to gain trust from new clients when approaching them, allowing us to expand our clients base with lower costs and ultimately achieving economies of scale in our marketing.

In addition, Hong Kong has become a hub for corporate clients, high net-worth clients and small-mid-sized hedge funds to commence allocating assets and portfolio overseas. We have to upgrade from a traditional brokerage house and embrace the new trend in clients who possess relatively larger size of portfolio, require relatively larger size of margin finance and need more advanced IT trading platform and tailored investment services.

All of the above-mentioned customer needs have gradually changed the business model of brokerage houses in Hong Kong from simply providing a channel for trading securities to a capital intensive financial platform. Therefore, our business expansion plan needs funding to finance them, which our Directors believe will be achieved through the [REDACTED].

BUSINESS OBJECTIVES AND FUTURE PLANS

Additionally, the requirements under the FRR as a measure of financial soundness of Hong Kong brokerage houses, also places certain constraints on their business expansion. The Directors believe that under the spirit of the FRR, “scale of operation and its expansion are decided by how much liquid capital a brokerage house has”. In this regard, the [REDACTED] from the [REDACTED] will certainly help the Group improve its liquid capital to enable its expansion plans including scale of deals or operations.

Our Directors believe that the [REDACTED] will therefore enhance our profile, strengthen our financial position and competitiveness, and provide us with additional capital to implement our future plans set out in the paragraph headed “Implementation plans” below in this section.

[REDACTED]

We estimate the [REDACTED] of the [REDACTED] which we will receive, assuming an [REDACTED] is fixed at low-end, mid-point and high-end of the [REDACTED] range stated in this document with and without exercising the [REDACTED] after deduction of [REDACTED] fees and commissions and estimated total [REDACTED] paid or payable by us in connection with the [REDACTED] are set out in the table below.

	Estimated [REDACTED] of the [REDACTED]		
	[REDACTED] of [REDACTED] per [REDACTED] (low-end of [REDACTED]) <i>HK\$ million</i>	[REDACTED] of [REDACTED] per [REDACTED] (mid-point of [REDACTED]) <i>HK\$ million</i>	[REDACTED] of [REDACTED] per [REDACTED] (high-end of [REDACTED]) <i>HK\$ million</i>
[REDACTED] not exercised	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED] exercised in full	[REDACTED]	[REDACTED]	[REDACTED]

Assuming an [REDACTED] of [REDACTED] and the [REDACTED] is not exercised, we intend to use the [REDACTED] from the issue of [REDACTED] under the [REDACTED] which we will receive, for the following purposes:

- [REDACTED], or [REDACTED], will be used to enlarge the capacity of our financing services ^(Note);
- [REDACTED], or [REDACTED], will be used for upgrading our PMS and OMS;
- [REDACTED], or [REDACTED], will be used for proprietary trading;
- [REDACTED], or [REDACTED], will be used to expand our client network with a focus on high net worth and institutional clients;

BUSINESS OBJECTIVES AND FUTURE PLANS

- [REDACTED], or [REDACTED], will be used for entering into the corporate finance advisory business;
- [REDACTED], or [REDACTED], will be used to enhance our research capabilities and asset management service;
- the remaining amount of [REDACTED], representing [REDACTED] of the [REDACTED] from the issue of [REDACTED] under the [REDACTED], will be used to provide funding for our working capital and other general corporate purposes.

Note:

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. Our bank borrowings refer to available bank facilities of HK\$190 million used for our margin financing and short term IPO financing comprising of (i) certain overdrafts with interest charged at Hong Kong Prime Rate / Hong Kong Prime Rate + 0.5% per annum or HIBOR + 2.3% per annum and (ii) revolving term loans with interest charged at HIBOR + 1.9%/2.25% per annum based on 1week tenor. Such facilities from Bank A mature on 6 October 2018 while facilities from Bank B are subject to review on 31 May 2019. For further details of our bank borrowings, please refer to the paragraph headed “Business — Our business model — (ii) Financing services — External bank borrowings” in this document.

According to current estimates, our Directors expect that the [REDACTED] from the issue of [REDACTED] under the [REDACTED] of [REDACTED], the cash in bank and on hand as at the Latest Practicable Date together with the projected cash flow from operations will be sufficient to finance the implementation of our Company’s future plans up to the period ending 31 December 2020.

If the [REDACTED] is determined at the high end or low point of the indicative [REDACTED] range, the [REDACTED] from the issue of [REDACTED] under the [REDACTED] to be received by us is estimated to increase or decrease by [REDACTED] assuming the [REDACTED] is not exercised. The above allocation of the [REDACTED] to our financing services will be adjusted in the event that the [REDACTED] is fixed at a higher or lower level compared to the mid-point of the indicative [REDACTED] range stated in this document. In the event that the [REDACTED] is exercised in full and based on the mid-point of the indicative [REDACTED] range, we estimate that we will receive additional [REDACTED] from the issue of additional new Shares of [REDACTED], deducting [REDACTED] fees and estimated expenses payable by us. The additional [REDACTED] received from the exercise of the [REDACTED] will be applied to our financing services.

The possible use of our [REDACTED] outlined above may change in light of our evolving business needs and conditions, management requirements together with prevailing market circumstances. In the event of any material modification to the [REDACTED] as described above, we will issue an announcement and make disclosure in our annual report for the relevant year as required by the GEM Listing Rules.

To the extent that the [REDACTED] from the issue of [REDACTED] under the [REDACTED] are not immediately required for the above purposes, it is the present intention of our Directors that such [REDACTED] be placed in short-term interest bearing deposit accounts held with authorised financial institutions.

BUSINESS OBJECTIVES AND FUTURE PLANS

IMPLEMENTATION PLANS

The implementation plans for each of the six-month periods until 31 December 2020 for carrying out our business strategies are set out below, assuming the [REDACTED] is fixed at mid-point of the [REDACTED] range without exercising the [REDACTED].

The following implementation plans set out below are based on the current economic status and the assumptions as set out in paragraph headed “Bases and key assumptions” below in this section. There is no assurance that our implementation plans will be implemented according to the estimated time frame or at all.

	From the [REDACTED] to 31 December 2018 <i>HK\$'000</i>	Six months ending 30 June 2019 <i>HK\$'000</i>	Six months ending 31 December 2019 <i>HK\$'000</i>	Six months ending 30 June 2020 <i>HK\$'000</i>	Six months ending 31 December 2020 <i>HK\$'000</i>	Total <i>HK\$'000</i>
Enlarging the capacity of our financing services	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Upgrading our PMS and OMS	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
– PMS	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
– OMS	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Proprietary trading	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Expand our client network with a focus on high net worth and institutional clients	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
– marketing	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
– hire staff	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Entering into the corporate finance advisory business	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Enhancing our research capabilities and asset management service	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
– hire staff	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
– set up public fund	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Working capital and other general corporate purpose	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>

BUSINESS OBJECTIVES AND FUTURE PLANS

Bases and key assumptions:

The implementation plans are based on the following bases and key assumptions:

- there will be no material changes in the prospects of the financial services industry in general and the securities broking industry in particular;
- there will be no material changes in industry trends and investing patterns due to technological advancement or otherwise that render our services obsolete;
- we will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business objectives relate;
- there will be no change in the validity of the licenses obtained by us;
- there will be no significant changes in our business relationships with our major clients or suppliers;
- there will be no material changes in the existing applicable laws, policies or industry or regulatory treatment or in the political, fiscal, foreign trade or economic conditions in Hong Kong and other places in which our Group operates or intends to operate;
- there will be no significant changes in the interest rates or the currency exchange rates from those currently prevailing;
- there will be no material changes in the bases or rates of taxation applicable to our Group;
- the [REDACTED] will be completed in accordance with and as described in the relevant section
- our Group will not be materially affected by the risk factors as set out under the section headed “Risk Factors” in this document;
- there will be no material changes in the funding required for each of the scheduled achievements as outlined under the paragraph headed “Implementation plans” above in this section; and
- our Group will be able to continue our operation in substantially the same way as it has been operating and there will be no disasters, natural, political or otherwise, which would materially disrupt our business or the implementation of our plans.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

APPENDIX I

ACCOUNTANTS’ REPORT

The following is the text of a report, prepared for the inclusion in this document, received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

The Directors
Victory Securities (Holdings) Company Limited

Pulsar Capital Limited

Dear Sirs,

We report on the historical financial information of Victory Securities (Holdings) Company Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-3 to I-60, which comprises the consolidated statements of profit or loss, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the years ended 31 December 2016 and 2017 (the “Relevant Periods”), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2016 and 2017 and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-3 to I-60 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [REDACTED] (the “Document”) in connection with the initial [REDACTED] of the shares of the Company on GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Directors’ responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants’ responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants’ Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants’ judgement, including the assessment of risks of material misstatement of the Historical Financial

APPENDIX I**ACCOUNTANTS' REPORT**

Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Group and the Company as at 31 December 2016 and 2017, and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

Report on matters under the Rules Governing the Listing of Securities on GEM of the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**Adjustments**

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

Dividends

We refer to note 13 to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Relevant Periods.

No historical financial statements for the Company

As at the date of the report, no statutory financial statements have been prepared for the Company since its date of incorporation.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

[REDACTED]

APPENDIX I

ACCOUNTANTS’ REPORT

I. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants’ report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young, Hong Kong in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the “Underlying Financial Statements”).

The Historical Financial Information is presented in Hong Kong dollars (HK\$) and all values are rounded to the nearest dollar except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

		Year ended 31 December	
	Notes	2016	2017
		HK\$	HK\$
Revenue	5	30,234,835	56,433,162
Other income and gains/(losses), net	6	<u>3,189,133</u>	<u>7,912,341</u>
		33,423,968	64,345,503
Commission expenses		(3,696,937)	(7,027,489)
Depreciation	15	(1,757,107)	(2,113,746)
Staff costs	7	(10,057,423)	(15,336,578)
Other operating expenses		(7,842,403)	(17,068,586)
Finance costs	8	<u>(1,207,427)</u>	<u>(1,570,457)</u>
Profit before tax	9	8,862,671	21,228,647
Income tax expense	10	<u>(1,768,473)</u>	<u>(3,575,564)</u>
Profit for the year		<u>7,094,198</u>	<u>17,653,083</u>
Attributable to the Owners of the parent		<u>7,094,198</u>	<u>17,653,083</u>

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December	
	<i>Note</i>	2016	2017
		<i>HK\$</i>	<i>HK\$</i>
PROFIT FOR THE YEAR		7,094,198	17,653,083
OTHER COMPREHENSIVE INCOME			
Items not to be reclassified to profit or loss in subsequent periods:			
Gain on revaluation of land and buildings held for own use			
— gross gain		12,719,048	4,641,365
— income tax effect	27	(2,098,643)	(765,825)
Income tax effect on disposal of land and building held for own use	27	—	719,577
Net of tax		<u>10,620,405</u>	<u>4,595,117</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>17,714,603</u>	<u>22,248,200</u>
Attributable to			
Owners of the parent		<u>17,714,603</u>	<u>22,248,200</u>

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December	
	<i>Notes</i>	2016	2017
		<i>HK\$</i>	<i>HK\$</i>
NON-CURRENT ASSETS			
Property, plant and equipment	15	58,745,960	50,698,601
Investment properties	16	20,200,000	10,200,000
Intangible asset	17	1	1
Other assets	18	475,000	475,000
Total non-current assets		<u>79,420,961</u>	<u>61,373,602</u>
CURRENT ASSETS			
Trade receivables	19	136,692,766	324,145,933
Financial assets at fair value through profit or loss	20	9,308,105	12,970,426
Prepayment and other receivables	21	1,938,369	3,840,033
Tax recoverable		328,655	—
Cash and cash equivalents	22	8,194,738	8,999,289
		<u>156,462,633</u>	<u>349,955,681</u>
CURRENT LIABILITIES			
Trade payables	23	31,887,888	203,615,931
Other payables and accruals	24	3,069,010	5,680,870
Provisions	25	1,762,807	1,645,138
Bank borrowings	26	57,000,000	47,500,000
Tax payable		—	3,068,427
Total current liabilities		<u>93,719,705</u>	<u>261,510,366</u>
NET CURRENT ASSETS		<u>62,742,928</u>	<u>88,445,315</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>142,163,889</u>	<u>149,818,917</u>

APPENDIX I

ACCOUNTANTS’ REPORT

		As at 31 December	
	<i>Notes</i>	2016	2017
		<i>HK\$</i>	<i>HK\$</i>
NON-CURRENT LIABILITIES			
Deferred tax liabilities	27	<u>6,449,366</u>	<u>6,356,194</u>
Total non-current liabilities		<u>6,449,366</u>	<u>6,356,194</u>
Net assets		<u>135,714,523</u>	<u>143,462,723</u>
EQUITY			
Share capital	28	193	193
Reserves	29	<u>135,714,330</u>	<u>143,462,530</u>
TOTAL EQUITY		<u>135,714,523</u>	<u>143,462,723</u>

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Notes	Attributable to owners of the parent				Total HK\$
		Share capital HK\$	Property revaluation reserve HK\$	Merger reserve (Note 29) HK\$	Retained profits HK\$	
Year ended 31 December 2016						
At 1 January 2016		—	19,220,615	100,000,000	19,579,112	138,799,727
Profit for the year		—	—	—	7,094,198	7,094,198
Other comprehensive income for the year:						
Change in fair value of land and buildings, net of tax		—	10,620,405	—	—	10,620,405
Total comprehensive income for the year		—	10,620,405	—	7,094,198	17,714,603
Interim dividends	13	—	—	—	(800,000)	(800,000)
Special dividend	13	—	—	—	(20,000,000)	(20,000,000)
Issue of shares on incorporation	28	193	—	—	—	193
At 31 December 2016		<u>193</u>	<u>29,841,020*</u>	<u>100,000,000*</u>	<u>5,873,310*</u>	<u>135,714,523</u>
Year ended 31 December 2017						
At 1 January 2017		193	29,841,020	100,000,000	5,873,310	135,714,523
Profit for the year		—	—	—	17,653,083	17,653,083
Other comprehensive income for the year:						
Change in fair value of land and buildings, net of tax		—	3,875,540	—	—	3,875,540
Income tax effect on disposal of land and building held for own use	27	—	719,577	—	—	719,577
Total comprehensive income for the year		—	4,595,117	—	17,653,083	22,248,200
Transfer of property revaluation reserve upon disposal of property		—	(4,361,079)	—	4,361,079	—
Interim dividend	13	—	—	—	(10,500,000)	(10,500,000)
Special dividend	13	—	—	—	(4,000,000)	(4,000,000)
At 31 December 2017		<u>193</u>	<u>30,075,058*</u>	<u>100,000,000*</u>	<u>13,387,472*</u>	<u>143,462,723</u>

* These reserve accounts comprise the consolidated reserves of HK\$135,714,330 and HK\$143,462,530 as at 31 December 2016 and 2017 respectively on the consolidated statements of financial position.

APPENDIX I

ACCOUNTANTS' REPORT

CONSOLIDATED STATEMENTS OF CASH FLOWS

	<i>Notes</i>	Year ended 31 December	
		2016	2017
		<i>HK\$</i>	<i>HK\$</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		8,862,671	21,228,647
Adjustments for:			
Depreciation	15	1,757,107	2,113,746
Dividend income from listed investments	6	(253,565)	(253,865)
Interest expense on bank loans and overdrafts	8	1,157,106	1,495,882
Fair value losses/(gains) on financial assets at fair value through profit or loss	6	765,528	(2,564,973)
Revaluation gains on investment properties	6	(1,300,000)	(4,500,000)
(Gain)/loss on disposal of items of property, plant and equipment	6	(550)	796
Provision/(reversal of provision) for loss on guaranteed contracts with customers	9	<u>384,802</u>	<u>(151,843)</u>
		11,373,099	17,368,390
Decrease in other assets		175,000	—
Increase in trade receivables		(21,528,424)	(187,453,167)
Decrease/(increase) in prepayment and other receivables		26,056,430	(1,901,664)
Increase in trade payables		25,013,500	171,728,043
(Decrease)/increase in other payables and accruals		(883,963)	2,611,860
(Decrease)/increase in provisions		<u>(36,152)</u>	<u>34,174</u>
Cash generated from operations		40,169,490	2,387,636
Hong Kong profits tax paid		<u>(4,207,725)</u>	<u>(317,902)</u>
Net cash flows from operating activities		<u>35,961,765</u>	<u>2,069,734</u>

APPENDIX I

ACCOUNTANTS’ REPORT

	<i>Notes</i>	Year ended 31 December	
		2016	2017
		<i>HK\$</i>	<i>HK\$</i>
Net cash flows from operating activities		<u>35,961,765</u>	<u>2,069,734</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(120,426)	(425,818)
Purchases of financial assets at fair value through profit or loss		(38,002)	(6,239,274)
Proceeds from disposal of financial assets at fair value through profit or loss		1,409	5,371,972
Proceeds from disposal of available-for-sale financial assets		418,000	—
Proceeds from disposal of property, plant and equipment		550	11,000,000
Proceeds from disposal of an investment property		—	14,500,000
Dividend received		143,567	23,819
Net cash flows from investing activities		<u>405,098</u>	<u>24,230,699</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(1,157,106)	(1,495,882)
New bank borrowings		368,200,000	1,503,980,695
Repayment of bank borrowings		(376,200,000)	(1,513,480,695)
Repayment of subordinated loan		(3,000,000)	—
Dividends paid		(20,800,000)	(14,500,000)
Net cash flows used in financing activities		<u>(32,957,106)</u>	<u>(25,495,882)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		<u>4,784,981</u>	<u>8,194,738</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>8,194,738</u></u>	<u><u>8,999,289</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	<u><u>8,194,738</u></u>	<u><u>8,999,289</u></u>
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		6,442,614	7,366,787
Interest paid		<u>50,321</u>	<u>74,575</u>

APPENDIX I

ACCOUNTANTS’ REPORT

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

		As at 31 December	
	<i>Notes</i>	2016	2017
		<i>HK\$</i>	<i>HK\$</i>
NON-CURRENT ASSETS			
Investment in a subsidiary	30	<u>386,175</u>	<u>386,175</u>
CURRENT ASSETS			
Other receivables	21	193	193
Bank balances	22	<u>—</u>	<u>1,325</u>
		<u>193</u>	<u>1,518</u>
CURRENT LIABILITIES			
Due to subsidiaries	31	<u>386,175</u>	<u>387,500</u>
NET CURRENT LIABILITIES			
		<u>(385,982)</u>	<u>(385,982)</u>
Net assets		<u>193</u>	<u>193</u>
EQUITY			
Share capital	28	<u>193</u>	<u>193</u>
TOTAL EQUITY			
		<u>193</u>	<u>193</u>

APPENDIX I

ACCOUNTANTS’ REPORT

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Victory Securities (Holdings) Company Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands on 22 August 2016. The registered office of the Company is located at PO Box 472, 2nd Floor, Harbour Place, 103 South Church Street, George Town, Grand Cayman KY1-1106, Cayman Islands.

The Company is an investment holding company. During the Relevant Periods, the Company’s subsidiaries were principally engaged in the businesses of securities dealing, securities margin financing and asset management in Hong Kong.

One of the subsidiaries is a licensed corporation under the Hong Kong Securities and Futures Ordinance to carry out business of dealing in securities (Type 1), dealing in futures contracts (Type 2), advising on securities (Type 4) and asset management (Type 9, under the condition that it shall not provide a service of managing a portfolio of futures contracts for another person). The subsidiary is also a participant of the Stock Exchange.

The Company and its subsidiaries now comprising the Group underwent the Reorganisation as set out in the paragraph headed “Reorganisation” in the section headed “History, Development and Reorganisation” in the Document. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

In the opinion of the directors of the Company, the immediate and ultimate holding company of the Group is Dr. TT Kou’s Family Company Limited, which was incorporated in the British Virgin Islands (“BVI”) with limited liability.

As at the end of the Relevant Periods, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Victory Securities Holding Limited (<i>Note a</i>)	British Virgin Islands/ Hong Kong 4 September 2015	US\$50,000	100%	—	Investment holding
Victory Securities Company Limited (<i>Note b</i>)	Hong Kong 14 January 1993	HK\$100,000,000	—	100%	Securities dealings, securities margin financing and asset management
Victory (Nominees) Limited (<i>Note c</i>)	Hong Kong 30 November 2009	HK\$1	—	100%	Dormant
Victory VC Asset Management Company Limited (<i>Note d</i>)	Hong Kong 19 August 2015	HK\$1,000,000	—	100%	Dormant

Notes:

- a. No audited financial statements have been prepared for this entity since the date of its incorporation as this entity is not subject to any statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

APPENDIX I

ACCOUNTANTS’ REPORT

- b. The statutory financial statements of the entity for the years ended 31 December 2016 and 2017 prepared under Hong Kong Financial Reporting Standards (“HKFRSs”) were audited by Ernst & Young, Hong Kong.
- c. The statutory financial statements of the entity for the year ended 31 December 2016 prepared under Hong Kong Financial Reporting Standards (“HKFRSs”) was audited by Ernst & Young, Hong Kong. No audited financial statements have been prepared for the entity for the year ended 31 December 2017, as the entity was dormant in 2017 and was not subject to any statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.
- d. No audited financial statements have been prepared for the entity for the years ended 31 December 2016 and 2017, as the entity was dormant during those years and was not subject to any statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation, as more fully explained in the paragraph headed “Reorganisation” in the section headed “History, Development and Reorganisation” in the Document, the Company became the holding company of the companies now comprising the Group on 25 May 2017. The Reorganisation only involved insertion of new holding companies at the top of an existing holding company (i.e., Victory Securities Company Limited) and has not resulted in any change of the economic substance. For the purpose of this report, the Historical Financial Information has been prepared on a consolidated basis by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Relevant Periods.

Accordingly, the consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group are prepared as if the current group structure had been in existence throughout the Relevant Periods. The consolidated statements of financial position of the Group as at 31 December 2016 and 2017 present the assets and liabilities of the companies now comprising the Group, as if the current group structure had been in existence at those dates. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

All intra-group transactions and balances have been eliminated on consolidation.

2.2 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with HKFRSs (which include all HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2017, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods.

The Historical Financial Information has been prepared under the historical cost convention, except for investment properties, land and buildings held for own use classified as property, plant and equipment and financial assets at fair value through profit or loss which have been measured at fair value.

APPENDIX I

ACCOUNTANTS’ REPORT

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Historical Financial Information.

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions¹</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts¹</i>
HKFRS 9	<i>Financial Instruments¹</i>
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation²</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
HKFRS 15	<i>Revenue from Contracts with Customers¹</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers¹</i>
HKFRS 16	<i>Leases²</i>
HKFRS 17	<i>Insurance Contracts³</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures²</i>
Amendments to HKFRS 1 included in Annual Improvements to HKFRSs 2014-2016 Cycle	<i>First-Time Adoption of Hong Kong Financial Reporting Standards¹</i>
Amendments to HKAS 28 included in Annual Improvements to HKFRSs 2014-2016 Cycle	<i>Investments in Associates and Joint Ventures¹</i>
Amendments to HKFRS 3 included in Annual Improvements to HKFRSs 2015-2017 Cycle	<i>Business Combinations²</i>
Amendments to HKFRS 11 included in Annual Improvements to HKFRSs 2015-2017 Cycle	<i>Joint Arrangements²</i>
Amendments to HKAS 12 included in Annual Improvements to HKFRSs 2015-2017 Cycle	<i>Income Taxes²</i>
Amendments to HKAS 23 included in Annual Improvements to HKFRSs 2015-2017 Cycle	<i>Borrowing Costs²</i>
Amendments to HKAS 40	<i>Transfers of Investment Property¹</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration¹</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments²</i>

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after 1 January 2021

⁴ No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

APPENDIX I

ACCOUNTANTS’ REPORT

During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts related to the classification and measurement and the impairment requirements are summarised as follows:

(a) Classification and measurement

The adoption of HKFRS 9 will not have a significant impact on the classification and measurement of its financial assets. Financial assets currently held at fair value through profit or loss will continue to be measured at fair value through profit or loss.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables and other assets within the next twelve months. The Group has determined that there is no significant impact upon initial adoption of the standard.

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group will adopt HKFRS 15 from 1 January 2018. The Group has determined that there is no significant financial impact upon initial adoption of the standard.

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As

APPENDIX I

ACCOUNTANTS’ REPORT

disclosed in note 36 to the Historical Financial Information, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK\$1,040,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. The combination of straight-line depreciation of the right-of-use assets and the effective interest rate method applied to the lease liabilities will result in a higher total charge to the profit or loss in the initial years of the lease, and decreasing expenses during the latter part of the lease term, but there is no impact on the total expenses recognised over the lease term. The directors of the Company anticipate that the application of HKFRS 16 would not have significant impact on the performance of the Group comparing with HKAS 17 currently adopted by the Group. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity, directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The results of subsidiaries are included in the Company’s profit or loss to the extent of dividends received and receivable. The Company’s investments in subsidiaries are stated at cost less any impairment losses.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in the statement of profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Fair value measurement

The Group measures its investment properties, land and buildings held for own use and financial assets at fair value through profit or loss at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

APPENDIX I

ACCOUNTANTS’ REPORT

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Historical Financial Information are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Historical Financial Information on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets and investment properties), the asset’s recoverable amount is estimated. An asset’s recoverable amount is the higher of the asset’s or cash-generating unit’s value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

APPENDIX I

ACCOUNTANTS' REPORT

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parents of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Land held for own use under operating leases and buildings thereon, where the fair value of the leasehold interest in the land and buildings cannot be measured separately at inception of the lease, are accounted for as being held under a finance lease, unless the buildings are also clearly held under an operating lease. For these purposes, inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later. The leasehold land and buildings are stated on the consolidated statements of financial position at their fair value at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed by independent qualified valuers annually, with changes in the fair value arising on revaluations recorded as movements in the property revaluation reserve. If the total of this reserve is insufficient to cover

APPENDIX I

ACCOUNTANTS’ REPORT

a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the property revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Expenditure incurred after items of plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and building held for own use under finance leases	The shorter of 50 years and the unexpired term of the lease
Leasehold improvements	The shorter of 8 years and the unexpired term of the lease
Furniture and fixtures	20%
Office and computer equipment	20%
Motor vehicles	25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets with indefinite useful lives are tested for impairment annually individually. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

APPENDIX I

ACCOUNTANTS’ REPORT

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other gains/losses in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the interest income in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss.

APPENDIX I

ACCOUNTANTS’ REPORT

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group’s consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group’s continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition).

APPENDIX I

ACCOUNTANTS’ REPORT

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss or loans and borrowings, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group’s financial liabilities include trade and other payables and accruals, bank borrowings and subordinated loan.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

APPENDIX I

ACCOUNTANTS’ REPORT

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group’s cash management.

For the purpose of the statements of financial position, cash and cash equivalents, bank balances comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

APPENDIX I

ACCOUNTANTS’ REPORT

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) Commission and brokerage income arising from broking services are recognised when the relevant contract notes are exchanged.
- (b) Placing commission income and handling fee income are recognised when the relevant transaction have been arranged or the relevant services have been rendered.

APPENDIX I

ACCOUNTANTS’ REPORT

- (c) Interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.
- (d) Dividend income is recognised when the shareholders’ right to receive payment has been established.
- (e) Asset management, placing and handling fee income is recognised when the relevant services are rendered.
- (f) Rental income is recognised on a time proportion basis over the lease term.

Other employee benefits

Pension scheme

The Group operates two defined contribution retirement benefit schemes: Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance and occupational retirement scheme (“ORSO Scheme”) under the Occupational Retirement Scheme Ordinance for its employees in Hong Kong. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the respective schemes. The assets of the schemes are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim and special dividends are simultaneously proposed and declared by the directors. Consequently, interim and special dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

The Historical Financial Information is presented in Hong Kong dollars, which is the Company’s functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Fiduciary activities

The Group provides brokerage and asset management services and the Group acts in a fiduciary capacity which results in the holding or placing of assets on behalf of its customers. These assets and any gains or losses arising thereon are not included in Historical Financial Information as the Group has no contractual rights to these assets and its gains or losses under fiduciary activities.

APPENDIX I

ACCOUNTANTS’ REPORT

3. SIGNIFICANT ACCOUNTING AND ESTIMATES

The preparation of the Group’s Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(a) Estimation of fair value of investment properties and leasehold land and buildings

Investment properties and leasehold land and buildings are carried in the consolidated statements of financial position at their fair values. The fair value is based on a valuation on these properties conducted by an independent professional valuer using property valuation techniques which involve making assumptions on certain market conditions. As set out in notes 15 and 16 to the Historical Financial Information, favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Group’s investment properties and leasehold land and buildings.

(b) Impairment of trade receivables

The Group reviews its trade receivables to assess impairment at least at the end of each reporting period. In determining whether an impairment loss should be recorded in the statement of profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the trade receivable before the decrease can be identified with an individual trade receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of debtors. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and has the reportable operating segments as follows:

- (a) the securities broking service segment comprises the provision of broking services in securities traded in Hong Kong and overseas markets and the provision of debt securities placing services to listed clients;
- (b) the financing services segment comprises the provision of financing services to margin and cash clients; and
- (c) the asset management services segment comprises the provision of fund management and wealth management services.

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group’s profit before tax, except that unallocated other income and gains/losses as well as corporate expenses are excluded from such measurement.

APPENDIX I

ACCOUNTANTS’ REPORT

Year ended 31 December 2016

	Securities broking services <i>HK\$</i>	Financing services <i>HK\$</i>	Assets management services <i>HK\$</i>	Total <i>HK\$</i>
Segment revenue	<u>23,832,126</u>	<u>5,685,918</u>	<u>716,791</u>	<u>30,234,835</u>
Segment results	<u>15,247,539</u>	<u>4,478,491</u>	<u>(1,566,899)</u>	<u>18,159,131</u>
Other income and gains/(losses), net				3,189,133
Unallocated expenses				<u>(12,485,593)</u>
Profit before tax				<u>8,862,671</u>
Other segment information:				
Interest income from clients	<u>—</u>	<u>5,685,918</u>	<u>—</u>	<u>5,685,918</u>
Finance costs	<u>—</u>	<u>(1,207,427)</u>	<u>—</u>	<u>(1,207,427)</u>
Commission expenses	<u>(3,696,937)</u>	<u>—</u>	<u>—</u>	<u>(3,696,937)</u>
Provision for loss on guaranteed contracts with customers	<u>—</u>	<u>—</u>	<u>(384,802)</u>	<u>(384,802)</u>
Depreciation	<u>(439,222)</u>	<u>—</u>	<u>—</u>	<u>(439,222)</u>
Unallocated				<u>(1,317,885)</u>
				<u>(1,757,107)</u>

APPENDIX I

ACCOUNTANTS’ REPORT

Year ended 31 December 2017

	Securities broking services <i>HK\$</i>	Financing services <i>HK\$</i>	Assets management services <i>HK\$</i>	Total <i>HK\$</i>
Segment revenue	<u>46,937,968</u>	<u>7,267,365</u>	<u>2,227,829</u>	<u>56,433,162</u>
Segment results	<u><u>29,846,984</u></u>	<u><u>5,696,908</u></u>	<u><u>327,934</u></u>	<u><u>35,871,826</u></u>
Other income and gains/(losses), net				7,912,341
Unallocated expenses				<u>(22,555,520)</u>
Profit before tax				<u><u>21,228,647</u></u>
Other segment information:				
Interest income from clients	<u><u>—</u></u>	<u><u>7,267,365</u></u>	<u><u>—</u></u>	<u><u>7,267,365</u></u>
Finance costs	<u><u>—</u></u>	<u><u>(1,570,457)</u></u>	<u><u>—</u></u>	<u><u>(1,570,457)</u></u>
Commission expenses	<u><u>(7,027,489)</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>(7,027,489)</u></u>
Reversal of provision for loss on guaranteed contracts with customers	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>151,843</u></u>	<u><u>151,843</u></u>
Depreciation	<u><u>(477,677)</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>(477,677)</u></u>
Unallocated				<u><u>(1,636,069)</u></u>
				<u><u>(2,113,746)</u></u>

APPENDIX I

ACCOUNTANTS’ REPORT

Geographical information

The Group’s non-current assets are located in Hong Kong. The Group operates in Hong Kong and its revenue are derived from its operations in Hong Kong.

Information about major customers

Revenue from major customers during the Relevant Periods contributing over 10% of the total revenue of the Group are as follows:

	Year ended 31 December	
	2016	2017
	HK\$	HK\$
Customer A	<u>4,437,211</u>	<u>N/A*</u>

* Contributed to less than 10% of the Group’s total revenue for the year ended 31 December 2017.

No other single customers contributed 10% or more to the Group’s revenue during the Relevant Periods.

5. REVENUE

Revenue represents commission and brokerage income, placing commission income, handling fee income, interest income and asset management fee as follows:

	Year ended 31 December	
	2016	2017
	HK\$	HK\$
Commission and brokerage income	20,155,562	35,405,745
Placing commission income	—	4,759,807
Handling fee income	3,656,968	6,672,994
Interest income from:		
– clients	5,685,918	7,267,365
– authorised institutions	14,479	91,670
– others	5,117	7,752
Asset management fee	<u>716,791</u>	<u>2,227,829</u>
	<u>30,234,835</u>	<u>56,433,162</u>

All interest income disclosed in the above came from financial assets not at fair value through profit or loss.

APPENDIX I

ACCOUNTANTS' REPORT

6. OTHER INCOME AND GAINS/(LOSSES), NET

Other income for the Relevant Periods are as follows:

	<i>Note</i>	Year ended 31 December	
		2016	2017
		<i>HK\$</i>	<i>HK\$</i>
Other Income			
Gross rental income		531,000	531,000
Consultancy fee income		986,674	—
Other interest income		737,100	—
Sundry income		145,772	63,299
		<u>2,400,546</u>	<u>594,299</u>
Trading (losses)/gains, net			
Fair value (losses)/gains on financial assets at fair value through profit or loss		(765,528)	2,564,973
Dividend income from listed investments		253,565	253,865
		<u>(511,963)</u>	<u>2,818,838</u>
Other gains/(losses), net			
Revaluation gains on investment properties	16	1,300,000	4,500,000
Gain/(loss) on disposal of items of property, plant and equipment		550	(796)
		<u>1,300,550</u>	<u>4,499,204</u>
		<u>3,189,133</u>	<u>7,912,341</u>

7. STAFF COSTS

Staff costs (including directors' remuneration (note 11)) for the Relevant Periods are as follows:

	Year ended 31 December	
	2016	2017
	<i>HK\$</i>	<i>HK\$</i>
Salaries, allowances and benefits in kind	9,528,441	14,746,868
Contributions to MPF and ORSO schemes	528,982	589,710
	<u>10,057,423</u>	<u>15,336,578</u>

8. FINANCE COSTS

Finance costs for the Relevant Periods are as follows:

	Year ended 31 December	
	2016	2017
	<i>HK\$</i>	<i>HK\$</i>
Interest expense on bank loans and overdrafts	1,157,106	1,495,882
Interest expense on client payables with no fixed repayment terms	50,321	74,575
Total interest expense on financial liabilities not at fair value through profit or loss	<u>1,207,427</u>	<u>1,570,457</u>

APPENDIX I

ACCOUNTANTS’ REPORT

9. PROFIT BEFORE TAX

The Group’s profit before tax for the Relevant Periods is arrived at after charging/(crediting) the following items:

	Year ended 31 December	
	2016	2017
	HK\$	HK\$
Auditor’s remuneration	295,000	302,000
Exchange and clearing fee	1,132,837	3,898,204
Information services expenses	1,720,993	2,082,913
Foreign exchange gain, net	(19,095)	(442,579)
Direct operating expenses arising from rental-earning investment properties	18,013	12,686
Provision/(reversal of provision) for loss on guaranteed contracts with customers	384,802	(151,843)
Operating lease payments in respect of office premises	196,524	526,719
[REDACTED]	[REDACTED]	[REDACTED]

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% for the Relevant Periods on the estimated assessable profits arising in Hong Kong.

	Note	Year ended 31 December	
		2016	2017
		HK\$	HK\$
Current tax			
Hong Kong profits tax		1,656,823	3,950,895
Overprovision for profits tax in prior years		(5,961)	(235,911)
		1,650,862	3,714,984
Deferred tax	27	117,611	(139,420)
Total tax charge for the year		<u>1,768,473</u>	<u>3,575,564</u>

A reconciliation of the tax expense applicable to the Group’s profit before tax at the statutory rate to the effective tax rate is as follows:

	Year ended 31 December	
	2016	2017
	HK\$	HK\$
Profit before tax	<u>8,862,671</u>	<u>21,228,647</u>
Tax at the statutory tax rate of 16.5%	1,462,341	3,502,727
Expenses not deductible for tax	480,973	1,753,512
Income not subject to tax	(251,596)	(1,444,666)
Over provision for profits tax in prior years	(5,961)	(235,911)
Others	82,716	(98)
Tax charge for the year	<u>1,768,473</u>	<u>3,575,564</u>
Effective tax rate	<u>20.0%</u>	<u>16.8%</u>

APPENDIX I

ACCOUNTANTS’ REPORT

11. DIRECTORS’ REMUNERATION

Kou Kuen, Chan Ying Kit and Chiu Che Leung Stephen were appointed as directors of the Company on 22 August 2016. Chan Pui Chuen was appointed as an executive director of the Company on 5 September 2017.

The directors received remuneration from the subsidiaries now comprising the Group for their appointment as directors of these subsidiaries. The remuneration of each of these directors for the Relevant Periods as recorded in the financial statements of the subsidiaries is set out below:

	Year ended 31 December	
	2016	2017
	HK\$	HK\$
Fee	643,000	360,000
<i>Other emoluments</i>		
Salaries, allowances and benefits in kind	820,728	1,998,066
Contributions to retirement schemes	71,400	83,653
Commission expenses	22,139	1,261,673
	<u>1,557,267</u>	<u>3,703,392</u>

(i) Executive and non-executive directors

	Director’s fees HK\$	Salaries and other benefits HK\$	Commission HK\$	Retirement scheme contributions HK\$	Total HK\$
For the year ended 31 December 2016					
<i>Executive Directors:</i>					
Kou Kuen	293,000	379,728	5,386	71,400	749,514
Chiu Che Leung Stephen *	110,000	441,000	16,753	—	567,753
	<u>403,000</u>	<u>820,728</u>	<u>22,139</u>	<u>71,400</u>	<u>1,317,267</u>
<i>Non-executive Director:</i>					
Chan Ying Kit	240,000	—	—	—	240,000
	<u>643,000</u>	<u>820,728</u>	<u>22,139</u>	<u>71,400</u>	<u>1,557,267</u>

APPENDIX I

ACCOUNTANTS’ REPORT

	Director’s fees <i>HK\$</i>	Salaries and other benefits <i>HK\$</i>	Commission <i>HK\$</i>	Retirement scheme contributions <i>HK\$</i>	Total <i>HK\$</i>
For the year ended 31 December 2017					
<i>Executive Directors:</i>					
Kou Kuen	120,000	906,593	1,246,583	78,000	2,351,176
Chiu Che Leung Stephen *	120,000	818,870	14,056	—	952,926
Chan Pui Chuen **	—	272,603	1,034	5,653	279,290
	<u>240,000</u>	<u>1,998,066</u>	<u>1,261,673</u>	<u>83,653</u>	<u>3,583,392</u>
<i>Non-executive Director:</i>					
Chan Ying Kit	120,000	—	—	—	120,000
	<u>360,000</u>	<u>1,998,066</u>	<u>1,261,673</u>	<u>83,653</u>	<u>3,703,392</u>

* Chiu Che Leung Stephen was appointed as an executive director of one of the subsidiaries of the Company on 28 January 2016.

** Chan Pui Chuen was appointed as an executive director of the Company on 5 September 2017.

During the Relevant Periods, there was no arrangement under which a director waived or agreed to waive any remuneration.

During the Relevant Periods, no remuneration was paid or payable by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

(ii) No independent non-executive director was appointed and there were no fees and other emoluments payable to the independent non-executive directors during the Relevant Periods.

12. FIVE HIGHEST PAID EMPLOYEES

During the Relevant Periods, the five highest paid employees included two directors of the then holding company of the Group for the year ended 31 December 2016 and 2017, details of whose remuneration are set out in note 11 above.

Details of the remuneration of the remaining highest paid employees who are neither a director nor chief executive for the Relevant Periods, are as follows:

	Year ended 31 December	
	2016	2017
	<i>HK\$</i>	<i>HK\$</i>
Salaries, allowances and benefits in kind	1,259,926	1,970,996
Pension scheme contributions	<u>72,638</u>	<u>105,242</u>
	<u>1,332,564</u>	<u>2,076,238</u>

APPENDIX I

ACCOUNTANTS' REPORT

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Year ended 31 December	
	2016	2017
Nil to HK\$1,000,000	<u>3</u>	<u>3</u>

13. DIVIDENDS

	Year ended 31 December	
	2016 HK\$	2017 HK\$
Interim dividends	800,000	10,500,000
Special dividend	<u>20,000,000</u>	<u>4,000,000</u>
	<u>20,800,000</u>	<u>14,500,000</u>

The interim dividends in 2016 and 2017 and special dividend in 2016 have been declared and paid by Victory Securities Company Limited to its shareholders for the Relevant Period prior to the Reorganisation. The special dividend in 2017 has been declared and paid by the Company to its shareholders for the year 2017 after the Reorganisation.

The rate of dividend and the number of shares ranking for dividend are not presented as such information is not meaningful having regard the purpose of this report.

14. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the presentation of the results of the Group for the Relevant Periods as disclosed in note 2.1 above.

APPENDIX I

ACCOUNTANTS' REPORT

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings held for own use HK\$	Motor vehicles HK\$	Office equipment HK\$	Computer equipment HK\$	Furniture and fixtures HK\$	Leasehold improvements HK\$	Total HK\$
31 December 2016							
At 1 January 2016:							
Cost or valuation	46,600,000	370,000	905,226	851,383	876,003	1,599,052	51,201,664
Accumulated depreciation	—	(30,833)	(844,244)	(416,766)	(783,033)	(1,463,195)	(3,538,071)
Net carrying amount	<u>46,600,000</u>	<u>339,167</u>	<u>60,982</u>	<u>434,617</u>	<u>92,970</u>	<u>135,857</u>	<u>47,663,593</u>
At 1 January 2016, net of accumulated depreciation							
	46,600,000	339,167	60,982	434,617	92,970	135,857	47,663,593
Additions	—	—	33,951	37,933	48,542	—	120,426
Depreciation provided during the year	(1,419,048)	(92,500)	(23,481)	(138,727)	(51,370)	(31,981)	(1,757,107)
Gain on revaluation	<u>12,719,048</u>	—	—	—	—	—	<u>12,719,048</u>
At 31 December 2016, net of accumulated depreciation							
	<u>57,900,000</u>	<u>246,667</u>	<u>71,452</u>	<u>333,823</u>	<u>90,142</u>	<u>103,876</u>	<u>58,745,960</u>
At 31 December 2016:							
Cost or valuation	57,900,000	370,000	939,177	850,816	924,545	1,599,052	62,583,590
Accumulated depreciation	—	(123,333)	(867,725)	(516,993)	(834,403)	(1,495,176)	(3,837,630)
Net carrying amount	<u>57,900,000</u>	<u>246,667</u>	<u>71,452</u>	<u>333,823</u>	<u>90,142</u>	<u>103,876</u>	<u>58,745,960</u>

APPENDIX I

ACCOUNTANTS’ REPORT

	Land and buildings held for own use HK\$	Motor vehicles HK\$	Office equipment HK\$	Computer equipment HK\$	Furniture and fixtures HK\$	Leasehold improvements HK\$	Total HK\$
31 December 2017							
At 1 January 2017:							
Cost or valuation	57,900,000	370,000	939,177	850,816	924,545	1,599,052	62,583,590
Accumulated depreciation	—	(123,333)	(867,725)	(516,993)	(834,403)	(1,495,176)	(3,837,630)
Net carrying amount	<u>57,900,000</u>	<u>246,667</u>	<u>71,452</u>	<u>333,823</u>	<u>90,142</u>	<u>103,876</u>	<u>58,745,960</u>
At 1 January 2017, net of accumulated depreciation							
depreciation	57,900,000	246,667	71,452	333,823	90,142	103,876	58,745,960
Additions	—	—	—	385,569	2,749	37,500	425,818
Disposals	(11,000,000)	—	(796)	—	—	—	(11,000,796)
Depreciation provided during the year	(1,741,365)	(92,499)	(20,892)	(161,954)	(35,315)	(61,721)	(2,113,746)
Gain on revaluation	<u>4,641,365</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,641,365</u>
At 31 December 2017, net of accumulated depreciation							
depreciation	<u>49,800,000</u>	<u>154,168</u>	<u>49,764</u>	<u>557,438</u>	<u>57,576</u>	<u>79,655</u>	<u>50,698,601</u>
At 31 December 2017:							
Cost or valuation	49,800,000	370,000	938,381	1,236,385	927,294	1,636,552	54,908,612
Accumulated depreciation	—	(215,832)	(888,617)	(678,947)	(869,718)	(1,556,897)	(4,210,011)
Net carrying amount	<u>49,800,000</u>	<u>154,168</u>	<u>49,764</u>	<u>557,438</u>	<u>57,576</u>	<u>79,655</u>	<u>50,698,601</u>

The leasehold land and buildings of the Group are held in Hong Kong under finance lease consisting of a car park and a commercial property (2016: a car park, a residential property and a commercial property) and carried at fair value. Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying amount would have been approximately HK\$15,955,753 and HK\$12,281,531 as at 31 December 2016 and 2017, respectively.

On 28 June 2017, the Group has entered into a sale and purchase agreement with a close family member of certain directors (the “Sale and Purchase Agreement”) for the disposal of the residential property at HK\$11,000,000, which was completed in August 2017.

As at 31 December 2016 and 2017, the fair value of the car park with carrying amount of HK\$1,900,000 and HK\$2,000,000, respectively was measured using the direct comparison method based on market observable transactions of similar properties without any significant adjustments. Apart from that, the fair values of all other properties were determined by using a market comparison approach by reference to recent sales price of comparable properties on a price per square metre basis. As at the date of the revaluation on 31 December 2016 and 2017, the fair values of these properties are based on the valuations performed by C S Surveyors Limited (a member of the Hong Kong Institute of Surveyors), an independent professionally qualified valuer. The address of C S Surveyors Limited is 1/F, Kimley Commercial Building, 142-146 Queen’s Road Central, Hong Kong.

Revaluation surplus of HK\$12,719,048 and HK\$4,641,365 was recognised in the property revaluation reserve in other comprehensive income for the years ended 31 December 2016 and 2017, respectively.

APPENDIX I

ACCOUNTANTS' REPORT

At 31 December 2016 and 2017, the Group's land and buildings with a net carrying amount of HK\$56,000,000 and HK\$47,800,000, respectively, were pledged to secure general banking facilities granted to the Group, as further detailed in note 26 to the Historical Financial Information.

All other property, plant and equipment are stated at cost less accumulated depreciation.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's leasehold land and buildings:

Fair value measurement for:	Fair value measurements categorised into			Total HK\$
	(Level 1) HK\$	(Level 2) HK\$	(Level 3) HK\$	
31 December 2016				
- Commercial - Hong Kong	—	—	45,000,000	45,000,000
- Residential - Hong Kong	—	—	11,000,000	11,000,000
- Car park - Hong Kong	—	1,900,000	—	1,900,000
31 December 2017				
- Commercial - Hong Kong	—	—	47,800,000	47,800,000
- Car park - Hong Kong	—	2,000,000	—	2,000,000

There were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 during the Relevant Periods.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial property HK\$	Residential property HK\$
Carrying amount at 1 January 2016	35,000,000	9,700,000
Depreciation for the year	(1,111,111)	(307,937)
Gain from fair value adjustment recognised in other comprehensive income	11,111,111	1,607,937
Carrying amount at 31 December 2016 and 1 January 2017	45,000,000	11,000,000
Depreciation for the year	(1,529,370)	(180,328)
Gain from fair value adjustment recognised in other comprehensive income	4,329,370	180,328
Disposal of the residential property	—	(11,000,000)
Carrying amount at 31 December 2017	47,800,000	—

Apart from the car park measured under Level 2 by using the direct comparison method based on market observable transaction of similar properties without any significant adjustments, the fair value of the leasehold land and buildings were measured using the market comparison approach with reference to recent sales price of comparable properties on a price per square foot basis and hence the leasehold land and buildings were classified as Level 3 of the fair value hierarchy.

APPENDIX I

ACCOUNTANTS' REPORT

Below is a summary of the significant unobservable inputs to the valuation of leasehold land and buildings under Level 3:

	31 December	
	2016	2017
	HK\$	HK\$
Price per square foot (range)	<u>11,640 to 17,340</u>	<u>18,420</u>

A significant increase in the estimated price per square foot in isolation would result in a significantly higher fair value.

16. INVESTMENT PROPERTIES

	31 December	
	2016	2017
	HK\$	HK\$
Non-current assets		
At beginning of the year	18,900,000	20,200,000
Revaluation gains (note 6)	1,300,000	4,500,000
Disposal	—	<u>(14,500,000)</u>
At end of year	<u>20,200,000</u>	<u>10,200,000</u>

The Group's investment properties consist of a residential property (2016: a residential and a commercial property) in Hong Kong.

On 20 March 2017, the Group has entered into a sale and purchase agreement with a third party for the disposal of the commercial property at HK\$14,500,000, which was completed in July 2017.

At the end of each of the Relevant Periods, the directors of the Company engaged an external valuer for the valuations of the Group's properties. The selection criteria for the external valuer include market knowledge, reputation, independence and whether professional standards are maintained. Management has discussions with the valuer on the valuation assumptions and valuation results when the valuation is performed at each reporting date.

Investment properties were revalued on 31 December 2016 and 2017 based on a valuation performed by C S Surveyors Limited, an independent professionally qualified valuer, at HK\$20,200,000 and HK\$10,200,000, respectively.

The investment properties are leased to third parties under operating leases, further details of which are included in note 36(a) to the Historical Financial Information.

At 31 December 2016 and 2017, the Group's investment properties with a total carrying amount of HK\$20,200,000 and HK\$10,200,000, respectively, were pledged to secure general banking facilities granted to the Group as further detailed in note 26 to the Historical Financial Information.

APPENDIX I

ACCOUNTANTS’ REPORT

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group’s investment properties:

Fair value measurement for:	Fair value measurements categorised into			
	(Level 1)	(Level 2)	(Level 3)	Total
	HK\$	HK\$	HK\$	HK\$
31 December 2016				
- Commercial - Hong Kong	—	—	11,000,000	11,000,000
- Residential - Hong Kong	—	—	9,200,000	9,200,000
31 December 2017				
- Residential - Hong Kong	—	—	10,200,000	10,200,000

There were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 during the Relevant Periods.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial property HK\$	Residential property HK\$
Carrying amount at 1 January 2016	10,900,000	8,000,000
Net gain from fair value adjustment recognised as other gains in profit or loss	100,000	1,200,000
Carrying amount at 31 December 2016 and 1 January 2017	11,000,000	9,200,000
Net gain from fair value adjustment recognised as other gains in profit or loss	3,500,000	1,000,000
Disposal of the commercial property	(14,500,000)	—
Carrying amount at 31 December 2017	—	10,200,000

The fair value of the investment properties was measured using the market comparison approach with reference to recent sales price of comparable properties on a price per square foot basis and hence the investment properties were classified as Level 3 of the fair value hierarchy.

Below is a summary of the significant unobservable inputs to the valuation of investment properties:

	31 December	
	2016	2017
	HK\$	HK\$
Price per square foot (range)	13,370 to 13,580	14,826

A significant increase in the price per square foot in isolation would result in a significant increase in the fair value of the investment properties.

APPENDIX I

ACCOUNTANTS’ REPORT

17. INTANGIBLE ASSET

	31 December	
	2016	2017
	<i>HK\$</i>	<i>HK\$</i>
Trading right		
– Cost and carrying amount	<u>1</u>	<u>1</u>

The intangible asset is of indefinite useful lives and represent Exchange Trading Right in the Stock Exchange held by a subsidiary of the Group. The trading right has no foreseeable limit to the period over which the Group can use to generate net cash flows. As a result, the trading right is considered by management as having indefinite useful lives because it is expected to contribute net cash inflows indefinitely.

18. OTHER ASSETS

	31 December	
	2016	2017
	<i>HK\$</i>	<i>HK\$</i>
Hong Kong Securities Clearing Company Limited (“HKSCC”)		
– guarantee fund deposit (“Guarantee Fund”)	100,000	100,000
– refundable admission fee	100,000	100,000
The Stock Exchange		
– compensation fund deposit	100,000	100,000
– fidelity fund deposit	100,000	100,000
– stamp duty deposit	75,000	75,000
	<u>475,000</u>	<u>475,000</u>

19. TRADE RECEIVABLES

	<i>Notes</i>	31 December	
		2016	2017
		<i>HK\$</i>	<i>HK\$</i>
Margin client receivables	a	80,090,708	96,225,363
Cash client receivables	b	22,116,055	19,903,965
Clearing house receivables	b	11,867,207	7,369,383
Broker receivables	c	22,618,796	200,647,222
Total trade receivables		<u>136,692,766</u>	<u>324,145,933</u>

APPENDIX I

ACCOUNTANTS’ REPORT

Notes:

(a) *Margin client receivables*

At 31 December 2016 and 2017, the Group held securities (excluding bonds) with an aggregate fair value of HK\$251,720,056 and HK\$342,154,670, respectively, and bonds with an aggregate fair value of HK\$30,910 and HK\$7,168,509, respectively as collaterals over net margin client receivables. All margin client receivables are repayable on demand and bear interest at commercial rates. Management has assessed the market value of the pledged securities of each individual client at the end of each reporting period and considered that no impairment allowance is necessary. The collateral held can be sold at the Group’s discretion to settle any outstanding amount owed by margin clients.

No ageing analysis is disclosed as, in the opinion of the directors, the ageing analysis does not give additional value in view of the nature of securities margin business. They are generally included in the “neither past due nor impaired” category.

(b) *Cash client and clearing house receivables*

The settlement terms of receivables arising from the ordinary course of business of dealing in securities from cash clients and clearing house are within two days after trade date.

The ageing analysis of trade receivables arising from cash clients and clearing house at the end of each of the Relevant Periods are as follows:

	31 December	
	2016	2017
	<i>HK\$</i>	<i>HK\$</i>
Cash client receivables		
Neither past due nor impaired	21,589,019	18,475,868
Past due but not impaired		
– Less than 1 month past due	—	1,113,490
– Over 1 month but less than 3 months	9,419	945
– Over 3 month but less than 12 months	39,393	3,980
– Over 12 month but less than 2 years	36,850	6,283
– Over 2 years	441,374	303,399
	<u>22,116,055</u>	<u>19,903,965</u>
Clearing house receivables		
Neither past due nor impaired	<u>11,867,207</u>	<u>7,369,383</u>

Receivables that were neither past due nor impaired represent unsettled trades transacted on the last two days prior to the end of each reporting period and also relates to a wide range of independent clients for whom there are no recent history of default.

Receivables that were past due but not impaired relate to a number of independent clients that have a good track record with the Group. The Group will also consider the value of pledged securities of respective clients’ assets for impairment assessment as the proceeds upon selling the respective securities can be used to settle the outstanding balances. Based on past experience, management believes that no impairment allowance is necessary after taking into consideration the recoverability from the collateral. In the opinion of the directors, all the past due receivables are expected to be recovered.

APPENDIX I

ACCOUNTANTS’ REPORT

(c) *Broker receivables*

Broker receivables are arising from the business of dealing in securities related to unsettled trades and balances placed with the brokers. The broker receivables are neither past due nor impaired and are repayable on the settlement date of their respective trade dates, normally two or three business dates after the respective trade date. The ageing of broker receivables based on the trade date are within one month.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December	
	2016	2017
	<i>HK\$</i>	<i>HK\$</i>
Investments designated at fair value through profit or loss:		
Listed equity securities — Hong Kong	9,308,105	12,970,426
	<u>9,308,105</u>	<u>12,970,426</u>

The fair values of these listed equity investments are determined based on quoted market prices.

As at 31 December 2016 and 2017, securities with carrying value of HK\$8,963,243 and HK\$10,567,746, respectively, were pledged to secure banking facilities granted to the Group, as further detailed in note 26 to the Historical Financial Information.

21. PREPAYMENT AND OTHER RECEIVABLES

	<i>Notes</i>	31 December	
		2016	2017
		<i>HK\$</i>	<i>HK\$</i>
Group			
Prepayment, other debtors and deposits		1,114,730	1,863,723
[REDACTED]		[REDACTED]	[REDACTED]
Loans to employees	a	798,946	—
Due from a related company	b & 37	—	1,086
Due from directors	c & 37	24,500	—
Due from holding company	d	193	45,058
		<u>[REDACTED]</u>	<u>[REDACTED]</u>
Company			
Due from holding company	d	193	193

At the end of each of the Relevant Periods, none of the other receivables were impaired.

APPENDIX I

ACCOUNTANTS’ REPORT

Notes:

(a) The loans to employees are interest-free, unsecured and have no fixed terms of repayment.

(b) Particulars of amount due from related companies are as follows:

	1 January 2016 HK\$	Maximum amount outstanding during the year HK\$	31 December 2016 and 1 January 2017 HK\$	Maximum amount outstanding during the year HK\$	31 December 2017 HK\$
Related companies:					
Victory Financial Group					
Company Limited ("VFGCL")*	24,009,189	36,909,207	—	18,824	—
Victory Insurance Consultants					
Company Limited*	14,844	20,997	—	10,074	1,086
Total	24,024,033	36,930,204	—	28,898	1,086

* Kou Kuen is the common shareholder and has significant influence over the Group and the related companies during the Relevant Periods.

The amount due from VFGCL is non-trade in nature, unsecured and has no fixed terms of repayment. Pursuant to an agreement between the Group and VFGCL, effective from 1 January 2016 to 31 December 2016, the amount is interest bearing at an average effective rate of 3.5% per annum, which was mutually agreed.

The amount due from Victory Insurance Consultants Company Limited is in the form of current account advances which is non-trade in nature, interest-free, unsecured and has no fixed terms of repayment.

(c) Particulars of amounts due from directors are as follows:

	1 January 2016 HK\$	Maximum amount outstanding during the year HK\$	31 December 2016 and 1 January 2017 HK\$	Maximum amount outstanding during the year HK\$	31 December 2017 HK\$
Name:					
Kou Kuen	1,054,606	1,054,606	24,500	24,500	—
Chan Ying Kit	59,949	59,949	—	—	—
Total	1,114,555	1,114,555	24,500	24,500	—

The amounts due from directors are in the form of current account advances which are non-trade in nature, interest-free, unsecured and have no fixed terms of repayment.

APPENDIX I

ACCOUNTANTS’ REPORT

- (d) The amount due from holding company is non-trade in nature, interest-free, unsecured and has no fixed terms of repayment.

22. CASH AND CASH EQUIVALENTS

	31 December	
	2016	2017
	<i>HK\$</i>	<i>HK\$</i>
Group		
Bank balances	8,188,933	8,993,623
Cash in hand	5,805	5,666
Total cash and cash equivalents	<u>8,194,738</u>	<u>8,999,289</u>
Denominated in :		
Hong Kong dollars	4,496,759	3,166,017
United States dollars	3,263,315	4,528,620
Renminbi	398,789	1,260,726
Others	35,875	43,926
	<u>8,194,738</u>	<u>8,999,289</u>
Company		
Bank balances	—	1,325

Cash at banks earns interest at floating rates based on daily bank deposit rates.

The Group maintains segregated accounts with authorised institutions to hold client money in the normal course of business. At 31 December 2016 and 2017, client money maintained in segregated accounts not otherwise dealt with in the Historical Financial Information amounted to HK\$105,896,921 and HK\$305,186,305, respectively.

23. TRADE PAYABLES

	31 December	
	2016	2017
	<i>HK\$</i>	<i>HK\$</i>
Margin and cash client payables	26,127,425	202,025,329
Due to clearing house	5,760,463	1,590,602
	<u>31,887,888</u>	<u>203,615,931</u>

The settlement terms of trade payables arising from client businesses are normally two to three dates after trade date or at specific terms agreed with clearing house. The majority of the accounts payable to margin and cash clients are repayable on demand except where certain balances represent trades pending settlement or margin deposits and cash collateral received from clients for their trading activities under the normal course of business. Only the amounts in excess of the required margin deposits and cash collateral stipulated are repayable on demand.

No ageing analysis is disclosed for trade payable as in the opinion of the directors of the Group, the ageing analysis does not give additional value in view of the nature of these businesses.

APPENDIX I

ACCOUNTANTS’ REPORT

24. OTHER PAYABLES AND ACCRUALS

	Notes	31 December	
		2016 HK\$	2017 HK\$
Other payables and accruals	a	2,903,880	5,680,870
Due to related companies	b & 37	45,130	—
Due to a director	b & 37	120,000	—
		<u>3,069,010</u>	<u>5,680,870</u>

Notes:

- (a) Other payables are non-interest-bearing and have an average settlement term of one month.
- (b) The amounts due to related companies and a director are interest-free, unsecured and have no fixed terms of repayment.

25. PROVISIONS

	Provision for loss on guaranteed contracts with customers HK\$	Other provisions HK\$	Total HK\$
At 1 January 2016	1,234,726	179,431	1,414,157
Additional provision	384,802	39,719	424,521
Amounts utilised during the year	<u>(75,871)</u>	<u>—</u>	<u>(75,871)</u>
At 31 December 2016 and 1 January 2017	1,543,657	219,150	1,762,807
(Reversal of)/ additional provision	<u>(151,843)</u>	<u>34,174</u>	<u>(117,669)</u>
At 31 December 2017	<u>1,391,814</u>	<u>253,324</u>	<u>1,645,138</u>

The Group entered into loss protection discretionary account management agreements with 3 customers for asset management services provided during the years ended 31 December 2016 and 2017. The amount of the provision for loss on guaranteed contracts with customers is estimated based on the fair value of the portfolio of assets held at the end of each of the Relevant Periods. With 1 of the contracts expired during year 2017, the remaining guaranteed contracts are expected to be expired by year 2018.

APPENDIX I

ACCOUNTANTS' REPORT

26. BANK BORROWINGS

	31 December	
	2016	2017
	<i>HK\$</i>	<i>HK\$</i>
Bank loans - secured	<u>57,000,000</u>	<u>47,500,000</u>

At the end of each of the Relevant Periods, the bank loans were secured by margin clients' securities and securities held by the Group amounting to HK\$79,902,342 and HK\$82,075,884 and leasehold land and buildings and investment properties of the Group with an aggregate carrying value amounting to HK\$76,200,000 and HK\$58,000,000 as at 31 December 2016 and 2017, respectively.

The bank borrowings are repayable within 1 year. The directors consider that the carrying amounts of bank borrowings at the end of each of the Relevant Periods approximate to their fair values.

The effective interest rates for bank loans are floating ranging from 2.39% to 2.87% and 2.18% to 3.57% per annum for the years ended 31 December 2016 and 2017, respectively.

One of the directors of the Company has given personal guarantees to banks to obtain the bank loans granted to the Group.

27. DEFERRED TAX LIABILITIES

Deferred tax is calculated in full on temporary differences under the liability method using the statutory tax rate of 16.5% for the Relevant Periods. The movements on the deferred tax liabilities for the Relevant Periods are as follows:

2016

	Accelerated tax depreciation	Revaluation of properties	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
At 1 January 2016	435,027	3,798,085	4,233,112
Deferred tax charged to the statement of profit or loss during the year (note 10)	117,611	—	117,611
Deferred tax recognised in other comprehensive income	—	2,098,643	2,098,643
At 31 December 2016	<u>552,638</u>	<u>5,896,728</u>	<u>6,449,366</u>

2017

	Accelerated tax depreciation	Revaluation of properties	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
At 1 January 2017	552,638	5,896,728	6,449,366
Deferred tax credited to the statement of profit or loss during the year (note 10)	(139,420)	—	(139,420)
Release of deferred tax recognised in other comprehensive income	—	(719,577)	(719,577)
Deferred tax recognised in other comprehensive income	—	765,825	765,825
At 31 December 2017	<u>413,218</u>	<u>5,942,976</u>	<u>6,356,194</u>

APPENDIX I

ACCOUNTANTS’ REPORT

28. SHARE CAPITAL

On 22 August 2016, one initial share was allotted and issued at par to an independent third party as the initial subscriber and was subsequently transferred to Dr. TT Kou’s Family Company Limited, the immediate holding company of the Company, on the same date. On the same date, 49,999 shares were allotted and issued to this holding company. As at 31 December 2016, the Company had authorised share capital of US\$50,000 divided into 100,000,000 ordinary shares with a par value of US\$0.0005 each.

Pursuant to the resolution passed at the board meeting dated 14 September 2017, the authorised share capital of the Company was increased from US\$50,000 divided into 100,000,000 shares each with a par value of US\$0.0005 to the aggregate of US\$50,000 and HK\$390,000 by creation of an additional 39,000,000 shares each with a par value of HK\$0.01. On the same date, the Company allotted and issued 19,500 shares of HK\$0.01 par value each to Dr. TT Kou’s Family Company Limited, immediately followed by the repurchase of 50,000 shares each with a par value of US\$0.0005 each held by Dr. TT Kou’s Family Company Limited. On the same date, the authorised share capital of the Company was reduced by cancellation of 100,000,000 shares of US\$0.0005 par value each, such that the authorised share capital of the Company became HK\$390,000 divided into 39,000,000 shares of HK\$0.01 par value each. As at 31 December 2017, 19,500 ordinary shares with a par value of HK\$0.01 each were issued.

A summary of movements in the Company’s share capital is as follows:

	Number of shares in issue	Share capital HK\$
Issue of shares at incorporation	50,000	193
As at 31 December 2016 and 1 January 2017	50,000	193
Share allotment on 14 September 2017	19,500	193
Share repurchase on 14 September 2017	(50,000)	(193)
As at 31 December 2017	<u>19,500</u>	<u>193</u>

29. RESERVES

The amounts of the Group’s reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity.

Merger reserve

The merger reserve of the Group represents the share capital of the then holding company of the Group prior to the completion of the Reorganisation as mentioned in note 2.1 of Section II to the Historical Financial Information.

30. INVESTMENT IN A SUBSIDIARY

	31 December	
	2016	2017
	HK\$	HK\$
Investment, at cost	<u>386,175</u>	<u>386,175</u>

APPENDIX I

ACCOUNTANTS’ REPORT

31. DUE TO SUBSIDIARIES

The Company’s amounts due to subsidiaries are unsecured, interest-free and repayable on demand.

32. RETAINED PROFITS (COMPANY)

	Retained profits <i>HK\$’000</i>
At 22 August 2016 (date of incorporation)	—
Profit and total comprehensive income for the period	<u>—</u>
At 31 December 2016 and 1 January 2017	—
Profit and total comprehensive income for the year	4,000,000
Special 2017 dividend	<u>(4,000,000)</u>
At 31 December 2017	<u><u>—</u></u>

33. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

31 December 2016

	1 January 2016 <i>HK\$</i>	Net cash outflows <i>HK\$</i>	31 December 2016 <i>HK\$</i>
Bank borrowings	65,000,000	(8,000,000)	57,000,000
Subordinated loan	<u>3,000,000</u>	<u>(3,000,000)</u>	<u>—</u>
	<u><u>68,000,000</u></u>	<u><u>(11,000,000)</u></u>	<u><u>57,000,000</u></u>

31 December 2017

	1 January 2017 <i>HK\$</i>	Net cash outflows <i>HK\$</i>	31 December 2017 <i>HK\$</i>
Bank borrowings	<u>57,000,000</u>	<u>(9,500,000)</u>	<u>47,500,000</u>
	<u><u>57,000,000</u></u>	<u><u>(9,500,000)</u></u>	<u><u>47,500,000</u></u>

34. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial instruments

The Group and the Company classified its financial instruments in the following categories:

APPENDIX I

ACCOUNTANTS' REPORT

FINANCIAL ASSETS

31 December 2016

	Loans and receivables	Financial assets at fair value through profit or loss	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Group			
Other assets	475,000	—	475,000
Trade receivables	136,692,766	—	136,692,766
Financial assets at fair value through profit or loss	—	9,308,105	9,308,105
Other receivables included in prepayment and other receivables	1,781,155	—	1,781,155
Cash and cash equivalents	8,194,738	—	8,194,738
Total	<u>147,143,659</u>	<u>9,308,105</u>	<u>156,451,764</u>
Company			
Other receivables	193	—	193
Total	<u>193</u>	<u>—</u>	<u>193</u>

31 December 2017

	Loans and receivables	Financial assets at fair value through profit or loss	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Group			
Other assets	475,000	—	475,000
Trade receivables	324,145,933	—	324,145,933
Financial assets at fair value through profit or loss	—	12,970,426	12,970,426
Other receivables included in prepayment and other receivables	1,568,988	—	1,568,988
Cash and cash equivalents	8,999,289	—	8,999,289
Total	<u>335,189,210</u>	<u>12,970,426</u>	<u>348,159,636</u>
Company			
Other receivables	193	—	193
Cash and cash equivalents	1,325	—	1,325
Total	<u>1,518</u>	<u>—</u>	<u>1,518</u>

APPENDIX I**ACCOUNTANTS' REPORT**

FINANCIAL LIABILITIES**31 December 2016**

	Financial liabilities at amortised cost
	<i>HK\$</i>
Group	
Trade payables	31,887,888
Other payables and accruals	3,069,010
Bank borrowings	57,000,000
	<u>91,956,898</u>
Company	
Due to a subsidiary	<u>386,175</u>
	<u>386,175</u>

31 December 2017

	Financial liabilities at amortised cost
	<i>HK\$</i>
Group	
Trade payables	203,615,931
Other payables and accruals	5,680,870
Bank borrowings	47,500,000
	<u>256,796,801</u>
Company	
Due to subsidiaries	<u>387,500</u>
	<u>387,500</u>

APPENDIX I

ACCOUNTANTS’ REPORT

(b) Financial risk factors

The Group’s principal financial instruments comprise, financial assets at fair value through profit or loss, trade receivable, cash and cash equivalents, trade payable, bank borrowings and subordinated loan. The Group has various other financial assets and liabilities such as other assets, financial assets included in prepayment and other receivables and other payables and accruals, which arise directly from its operations.

The main risks arising from the Group’s financial instruments are foreign exchange risk, interest rate risk, equity price risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

(i) Market risk

(1) Foreign exchange risk

Foreign exchange risk is the risk of loss due to adverse movements in foreign exchange rate relating to receivables/payables from/to foreign brokers and foreign currency deposits with banks. The directors consider that the currency risk is not significant as the assets and liabilities are mainly denominated in United States dollars and Hong Kong dollars. The Group currently does not have a foreign currency hedging policy, however, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the needs arise.

The Group is mainly exposed to currency risk arisen from Renminbi (“RMB”). As at 31 December 2016 and 2017, if RMB had strengthened or weakened by 50 basis points against HK\$ with all other variables held constant, the Group’s profit before tax would have increased or decreased by HK\$31,000 and HK\$99,000, respectively, mainly as a result of foreign exchange impact arising from net position of RMB denominated assets and liabilities.

(2) Cash flow and fair value interest rate risks

The Group monitors its interest rate exposure regularly to ensure that the underlying risk is monitored within an acceptable range. Most of the Group’s interest-bearing assets and liabilities are on a floating rate basis with maturity of one year or less.

The Group’s interest rate positions arise from treasury and operating activities. Interest rate risk arises in treasury management, customer financing and investment portfolios. Interest rate risk primarily results from the timing differences in the repricing of interest-bearing assets, liabilities and commitments. It also relates to the bank borrowings with variable interest rates which are collateralised by margin clients’ securities.

At 31 December 2016 and 2017, it is estimated that a general increase/decrease of 1% in interest rates, with all other variables held constant, would increase/decrease profit for the year and retained profits by HK\$531,000 and HK\$780,000, respectively.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the reporting date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 1% increase/decrease represents management’s assessment of a reasonably possible change in interest rates over the period until the next reporting date.

APPENDIX I

ACCOUNTANTS’ REPORT

(3) Price risk

The Group is exposed to equity price risk through investments in equity securities. The Group is not exposed to commodity price risk. The directors of the Company manage the exposure by closely monitoring the portfolio of equity investments. The management of the Group manages the risk exposure by closely monitoring the investment and will consider hedging the risk exposure should the needs arise.

The management of the Group has utilised the effect of stock price variation on profit to manage and analyse price risk. If the equity price of financial assets at fair value through profit or loss had been 5% higher/lower, with all other variables held constant, the Group’s profit after tax for the years ended 31 December 2016 and 2017 would have increased/decreased approximately by HK\$465,000 and HK\$649,000, respectively.

(ii) Credit risk

At the end of each reporting period, the Group’s maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

In order to minimise the credit risk, management of the Group has delegated a team responsible to compile the credit and risk management policies, to approve credit limits and determine any debt recovery action on those delinquent receivables. In addition, the Group holds collateral to cover its credit risks associated with its trade receivables from margin clients as mentioned in note 19 and reviews the recoverable amount for each individual trade receivable at each reporting date to ensure that adequate allowance for impairment is made for irrecoverable amounts. The credit risk on liquid funds is also limited because the counterparties are financial institutions with high credit-ratings assigned by international credit-rating agencies. In this regard, the directors of the Company consider that the Group’s credit risk is effectively controlled and significantly reduced.

As at 31 December 2016 and 2017, the Group has concentration of credit risk on trade receivables of 17% and 7%, respectively, of the total trade receivables due from the top five largest customers (excluding brokers) and 17% and 62%, respectively, of the total trade receivables due from a broker, which is registered with the United States Securities and Exchange Commission as a broker dealer.

(iii) Liquidity risk

As part of its ordinary broking activities, the Group is exposed to liquidity risk arising from the timing difference between settlement with clearing house, brokers and clients. To address the risk, management is responsible for its own cash management, including the short term investment of cash surpluses and the raising of borrowings to cover the expected cash demands, subject to approval by management when the borrowings exceed certain predetermined levels of authority. The Group’s policy is to regularly monitor its liquidity requirements and its compliance with regulatory requirements, to ensure that it maintains sufficient reserves of cash, banking facilities and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

As at 31 December 2016 and 2017, the Group’s available unutilised bank overdrafts and revolving loan facilities aggregated to approximately HK\$139,500,000 and HK\$142,500,000, respectively.

APPENDIX I

ACCOUNTANTS’ REPORT

The tables below present the cash flows payable by the Group within the remaining contractual maturities at the end of each reporting period. The amounts disclosed in the tables are the contractual undiscounted cash flows. The tables include both interest and principal cash flows. To the extent that interest rates are floating, the undiscounted amount is derived from the interest rate at the end of each respective reporting period.

	On demand or within one year	Over one year	Total Contractual undiscounted cash flow	Total Carrying amount
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
31 December 2016				
Trade payables	31,887,888	—	31,887,888	31,887,888
Other payables and accruals	3,069,010	—	3,069,010	3,069,010
Bank borrowings	57,029,827	—	57,029,827	57,000,000
	<u>91,986,725</u>	<u>—</u>	<u>91,986,725</u>	<u>91,956,898</u>
31 December 2017				
Trade payables	203,615,931	—	203,615,931	203,615,931
Other payables and accruals	5,680,870	—	5,680,870	5,680,870
Bank borrowings	47,530,238	—	47,530,238	47,500,000
	<u>256,827,039</u>	<u>—</u>	<u>256,827,039</u>	<u>256,796,801</u>

(c) Capital management

The Group’s primary objectives when managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between a higher shareholder’s return that might be possible with higher levels of borrowings and the advantages of a higher capital position, and makes adjustments to the capital structure in light of changes in economic conditions. No changes in the objectives, policies or processes for managing capital were made during the Relevant Periods.

The Group is not subject to any externally imposed capital requirements by regulatory authorities except for the subsidiary engaged in securities dealing, securities margin financing, dealing in futures contracts and asset management, which is regulated by the Hong Kong Securities and Futures Commission. The subsidiary monitors its liquid capital on a daily basis to ensure fulfillment of minimum and notification level of the liquid capital requirements under the Hong Kong Securities and Futures Ordinance, which is the higher of the floor requirement of HK\$3 million or 5% of the aggregate of its adjusted liabilities and clients’ margin.

During the Relevant Periods, for the subsidiary, which is subject to minimum capital requirements imposed by respective regulatory authorities, complied with all the minimum capital requirements.

APPENDIX I

ACCOUNTANTS’ REPORT

(d) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group’s financial instruments:

<i>Fair value measurement for:</i>	Fair value measurements categorised into			Total <i>HK\$</i>
	(Level 1) <i>HK\$</i>	(Level 2) <i>HK\$</i>	(Level 3) <i>HK\$</i>	
31 December 2016				
Financial assets at fair value through profit or loss	<u>9,308,105</u>	<u>—</u>	<u>—</u>	<u>9,308,105</u>
31 December 2017				
Financial assets at fair value through profit or loss	<u>12,970,426</u>	<u>—</u>	<u>—</u>	<u>12,970,426</u>

During the Relevant Periods, there were no transfers of financial instruments amongst Level 1, Level 2 and Level 3 of the fair value hierarchy.

(ii) Fair value of financial assets and liabilities not measured at fair value

The carrying amounts of the Group’s financial assets and liabilities, including trade and other receivables, cash and cash equivalents, trade payables, other payables and accruals and bank borrowings, approximate their fair values due to their short maturities.

APPENDIX I

ACCOUNTANTS’ REPORT

35. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group currently has a legally enforceable right to set-off the Continuous Net Settlement (“CNS”) money obligations receivable and payable with HKSCC; and the Group intends to settle on a net basis as trade receivable from or trade payable to HKSCC. For the net amount of CNS money obligations receivable or payable with HKSCC and the Guarantee Fund placed with HKSCC, they do not meet the criteria for offsetting in the Historical Financial Information and the Group does not intend to settle the balances on a net basis.

			<u>Related amounts not offset in the statements of financial position</u>			
	Gross amount of recognised financial liabilities	Gross amount offset in the statements of financial position	Net amount of financial assets presented in the statements of financial position	Financial instruments	Cash collateral received	Net amount
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
As at 31 December 2016						
Trade receivable due from clearing house	403,304,596	(391,437,389)	11,867,207	—	—	11,867,207

As at 31 December 2017						
Trade receivable due from clearing house	602,044,514	(594,675,131)	7,369,383	—	—	7,369,383

			<u>Related amounts not offset in the statements of financial position</u>			
	Gross amount of recognised financial assets	Gross amount offset in the statements of financial position	Net amount of financial liabilities presented in the statements of financial position	Financial instruments	Cash collateral pledged	Net amount
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
As at 31 December 2016						
Trade payable due to clearing house	397,197,852	(391,437,389)	5,760,463	—	—	5,760,463
As at 31 December 2017						
Trade payable due to clearing house	596,265,733	(594,675,131)	1,590,602	—	—	1,590,602

APPENDIX I

ACCOUNTANTS' REPORT

36. OPERATING LEASE ARRANGEMENTS

(a) **As lessor:**

The Group leases its investment properties (note 16 to the Historical Financial Information) under operating lease arrangements, with leases negotiated for terms ranging from 2 of 3 years. The terms of the leases also require the tenants to pay security deposits.

At 31 December 2016 and 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	31 December	
	2016	2017
	HK\$	HK\$
Within one year	521,000	300,000
In the second to fifth year inclusive	<u>528,000</u>	<u>125,000</u>
	<u>1,049,000</u>	<u>425,000</u>

(b) **As lessee:**

The Group leases an office premise and office equipment under operating lease arrangements. The lease for office property is negotiated for a term of 3 years.

At 31 December 2016 and 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December	
	2016	2017
	HK\$	HK\$
Within one year	551,000	480,000
In the second to fifth year inclusive	<u>—</u>	<u>560,000</u>
	<u>551,000</u>	<u>1,040,000</u>

APPENDIX I

ACCOUNTANTS' REPORT

37. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

In addition to the transactions detailed elsewhere in the Historical Financial Information, the Group had the following transactions with related parties during the Relevant Periods:

	<i>Notes</i>	Year ended 31 December	
		2016	2017
		<i>HK\$</i>	<i>HK\$</i>
Close family members of Kou Kuen, Kou Tak Tai and Chan Ying Kit:			
Brokerage income	a	2,179	585
Commission expenses	a	(11,676)	(5,239)
Interest income	b	252	31
Interest expense	b	(4)	—
Salaries, bonuses and contributions to retirement schemes	c	(218,406)	(227,445)
Proceeds from disposal of land and building	f	—	11,000,000
Key management personnel:			
Brokerage income	a	82,140	43,802
Commission expenses	a	(22,139)	(1,261,673)
Interest income	b	23,519	149
Interest expense	b	(162)	(153)
Related company:			
Victory Financial Group Company Limited			
Share of rental expenses	d	556,800	46,400
Share of office management fees	d	120,000	10,000
Share of office expenses	d	132,000	11,000
Other interest income	e	737,100	—

Notes:

- (a) The brokerage income and commission expense were based on terms stipulated on the agreements entered between the contracting parties. The commission expense was part of the remuneration of these related parties.
- (b) The interest income received from and interest expense paid to securities financing were based on the rates which are substantially in line with those normally received by the Group from third parties.
- (c) The salaries, bonuses and contributions to retirement schemes were based on terms stipulated on the employment contracts entered between the contracting parties.
- (d) Pursuant to a cost-sharing agreement, effective from 1 January 2015, made between the Group and VFGCL, VFGCL agreed to share rental expense and office management fee of HK\$46,400 and HK\$10,000 per month, respectively, in respect of the office area occupied by VFGCL; and VFGCL agreed to pay the Group HK\$11,000 per month in respect of the costs incurred relating to the office. The arrangement was terminated starting from February 2017.

APPENDIX I

ACCOUNTANTS' REPORT

- (e) Pursuant to a loan agreement, effective from 1 January 2016 to 31 December 2016, made between the Group and VFGCL, the Group agreed to make available to VFGCL a loan facility of up to HK\$40,000,000 with an average effective interest rate of 3.5% per annum, which was mutually agreed.
- (f) On 28 June 2017, the Group has entered into a Sale and Purchase Agreement with a close family member of Kou Kuen and Chan Ying Kit for the disposal of the residential property at HK\$11,000,000, which was completed in August 2017. The transaction price was determined with reference to the valuation performed by an independent qualified valuer.
- (g) On 4 February 2016, the Group disposed of its unlisted equity securities at its investment cost of HK\$418,000 to a close family member of Kou Kuen and Chan Ying Kit. No gain or loss was realised from the disposal.

Included in trade and other receivables/payables arising from the ordinary course of business of dealing in securities are amounts due from and (to) certain related parties, the details of which are as follows:

	31 December	
	2016	2017
	HK\$	HK\$
Close family members of Kou Kuen, Kou Tak Tai and Chan Ying Kit:		
Trade payables	(5,345)	—
Key management personnel:		
Trade receivables	5,881,966	5,165,800
Trade payables	(118,342)	(663,508)
Other receivables	24,500	—
Other payables	(120,000)	—
Related companies:		
Victory Insurance Consultants Limited	(38,605)	1,086
Victory Global Trustee Company Limited	(6,525)	—

The directors of the Company are of the opinion that the above transactions were entered into during the Group's ordinary course of business and at terms agreed by both parties. Trade receivables and trade payables terms are substantially in line with those normally offered by the Group to third parties.

Except for the trade receivables and trade payables and the loan terms as mentioned above, other balances are unsecured, interest-free and have no fixed repayment terms. Kou Kuen has given personal guarantees to banks to obtain the bank facilities granted to the Group to the extent of HK\$196,500,000 and HK\$190,000,000 as at 31 December 2016 and 2017, respectively. In the opinions of the directors, the guarantees issued by Kou Kuen will be released prior to the initial [REDACTED] of the shares of the Company on GEM of the Stock Exchange.

38. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to 31 December 2017.

39. EVENTS AFTER THE REPORTING PERIOD

Pursuant to a shareholder's resolution dated 12 February 2018, the Company declared and paid cash dividends of HK\$8.0 million to its then sole shareholder.

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED "WARNING" ON THE COVER OF THIS DOCUMENT.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED "WARNING" ON THE COVER OF THIS DOCUMENT.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

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APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

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APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

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APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX III

PROPERTY VALUATION

The following is the text of a letter, with a valuation certificate, prepared for the purpose of incorporation in this document, received from CS Surveyors Limited, an independent valuer, in connection with its valuation of the property interests of the Group.



[REDACTED]

**The Board of Directors
Victory Securities (Holdings) Company Limited**

Room 1101-03, 11th Floor,
Yardley Commercial Building,
No.3 Connaught Road West,
Hong Kong

Dear Sir / Madam,

INSTRUCTIONS

We refer to your instruction for us to value the properties interest (“the Properties”) held by Victory Securities (Holdings) Company Limited (the “Company”) and its subsidiaries (together referred to as the “Group”) located in Hong Kong. We confirm that we have carried out property inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Properties as at 30th April 2018 (the “Valuation Date”) for the purpose of incorporation in the document of the Company dated [REDACTED].

This letter which forms part of our valuation report explains the basis and methodologies of valuation, clarifying assumptions, valuation considerations, title investigations and limiting conditions of this valuation.

BASIS OF VALUATION

The valuation of the property interest is our opinion of the market value (“Market Value”) which is defined by The Hong Kong Institute of Surveyors (“HKIS”) Valuation Standards to mean “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

Market Value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase and without offset for any associated taxes or potential taxes.

APPENDIX III

PROPERTY VALUATION

The Market Value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as a typical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

VALUATION METHODOLOGY

We have valued the Properties on market basis and the direct comparison method is adopted where comparison based on prices realised on actual sales of comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of market value.

VALUATION CONSIDERATIONS

In valuing the property interest, we have complied with all the requirements contained in Chapter 8 to the Rules Governing the Listing of Securities on GEM issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards 2012 Edition.

VALUATION ASSUMPTION

Our valuation has been made on the assumption that the owner sells the Properties in the market in its existing state without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to affect the value of the Properties.

Unless stated as otherwise, we have assumed that the Properties have been constructed, occupied and used in full compliance with, and without contravention of all laws, except only where otherwise stated. We have further assumed that, for any use of the Properties upon which this report is based, all required licenses, permit, certificate, and authorisations have been obtained.

We have assumed that the owners of the Properties have free and uninterrupted rights to use and dispose of the Properties for the whole of the unexpired term of its Government Lease.

Other special assumptions of the Properties, if any, have been stated in the footnote of the valuation certificates of the Properties.

APPENDIX III

PROPERTY VALUATION

TITLE INVESTIGATION

We have carried out searches to be made at the Land Registry for the Properties located in Hong Kong.

However, we have not verified ownership of the Properties or to verify the existence of any amendments which do not appear on the copies handed to us. All documents have been used for reference only.

LIMITING CONDITIONS

We have conducted on-site inspection to the Properties. During the course of our inspection, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the Properties are free from rot infestation or any other defects. No tests were carried out on any of the services.

We have not been able to carry out detailed on-site measurements to verify the site and floor areas of the Properties and we have assumed that the areas shown on the copies of documents handed to us are correct.

We have relied to a considerable extent, on the information provided by the Group and have been accepted advice given to us by the Group on such matters as statutory notices, easements, tenure, occupation, tenancy details, floor area and in the identification of the Properties.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which are material to the valuation. We have been also advised by the Group that no material facts have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

No allowance has been made in our valuation for any charges, mortgages or amount owing on any property interests nor for any expense or taxation which may be incurred in effecting a sale. We have assumed that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

APPENDIX III

PROPERTY VALUATION

REMARKS

We have valued the Property in Hong Kong Dollar (HKD).

We enclose herewith the valuation certificates.

Yours faithfully,
For and on behalf of
CS Surveyors Ltd.
Denys L.P. KWAN

MBA(Const. & RE) Dip.Proj.Man.(RICS) FRICS MHKIS RPS(GP)
DIRECTOR

Mr. Kwan has been working in the real estate profession for around 42 years. His all-around experience (in both Government and private sector) includes land administration, agency, property management, property / asset valuation and property development. Being specialized in land matters and development projects, Mr. Kwan works on land assembly, development planning / consultancy, feasibility studies, project valuations, town planning applications, land exchanges, land premium assessments, project management, lease modifications / waivers. He has around 12 years of post-qualification experience in property valuation. Administratively, Mr. Kwan is responsible for the overall operation of the valuation division in C S Surveyors Ltd.

Professional Qualification

- Registered Professional Surveyor (RPS) (GP)
- Member of The Hong Kong Institute of Surveyors (MHKIS)
- Fellow of The Royal Institution of Chartered Surveyors (FRICS)

APPENDIX III

PROPERTY VALUATION

VALUATION CERTIFICATE

Property interests held for own-use by the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Market value in its existing state as at 30 th April 2018														
Offices A, E & F on 11th Floor, Yardley Commercial Building, No.3 Connaught Road West, Hong Kong	Yardley Commercial Building comprises 22 office storeys built above a 7-storey car port and commercial podium (including basement and cockloft). The building was completed in about 1981.	Owner-Occupied for office use.	HK\$47,800,000 (Hong Kong Dollars Forty-Seven Million And Eight Hundred Thousand Only)														
34/2001 share of and in the Remaining Portion of Marine Lot Nos.424, 425 & 426; The Remaining Portion of Section A of Marine Lot Nos.424 & 425 and The Remaining Portion of Section B of Marine Lot No.425	<p>According to the measurement from the registered floor plan, the saleable area (SA) of the property is: 241.08 sq.m. or thereabouts (approx. 2,595 sq.ft.)</p> <p>The existing use of the property is an office unit with office rooms, conference room, reception counter, storeroom, server room and a pantry. The internal condition is reasonable.</p> <p>The property is held under Government Lease for 999 years commencing from January 31, 1901 for Marine Lot Nos.425 & 426; and for 999 years commencing from December 1, 1900 for Marine Lot No.424.</p> <p>The Government Rent :</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;">Lot No.</th> <th style="text-align: left;">HK\$ (Per Annum)</th> </tr> </thead> <tbody> <tr> <td>ML 424</td> <td style="text-align: right;">\$68.01</td> </tr> <tr> <td>ML 424 S.A</td> <td style="text-align: right;">\$34.2</td> </tr> <tr> <td>ML 425 S.B</td> <td style="text-align: right;">\$37.6</td> </tr> <tr> <td>ML 425</td> <td style="text-align: right;">\$39.2</td> </tr> <tr> <td>ML 426</td> <td style="text-align: right;"><u>\$36</u></td> </tr> <tr> <td>Total:</td> <td style="text-align: right;"><u>\$215.01</u></td> </tr> </tbody> </table>	Lot No.	HK\$ (Per Annum)	ML 424	\$68.01	ML 424 S.A	\$34.2	ML 425 S.B	\$37.6	ML 425	\$39.2	ML 426	<u>\$36</u>	Total:	<u>\$215.01</u>		
Lot No.	HK\$ (Per Annum)																
ML 424	\$68.01																
ML 424 S.A	\$34.2																
ML 425 S.B	\$37.6																
ML 425	\$39.2																
ML 426	<u>\$36</u>																
Total:	<u>\$215.01</u>																

Notes:

1. The registered owner of the Property is Victory Securities Company Limited. It was assigned to the current owner for the consideration of HK\$14,872,200.00 registered vide memorial no. 09072802530085 dated 30th June 2009.
2. According to the information from the Land Registry, the Property is subject to the followings encumbrances:
 - i. Deed of Partition and Mutual Covenant and Grant registered vide memorial no. UB2175451 dated 2nd November 1981.
 - ii. Mortgage in favour of Chong Hing Bank Limited for the consideration of all monies registered vide memorial no. 16010401470048 dated 11th December 2015.

APPENDIX III

PROPERTY VALUATION

3. The Property falls within an area zoned as "Commercial" under Sai Ying Pun & Sheung Wan Outline Zoning Plan No. S/H3/30 gazetted on 21st October 2016.
4. As confirmed by the Company, the property is not subject to any options or rights of pre-emption and any proposed transaction between any other members of the Group.
5. The inspection was performed by Mr. Alan Au-Yeung *MRICS MHKIS RPS(GP)* on 4th January 2017.

APPENDIX III

PROPERTY VALUATION

VALUATION CERTIFICATE

Property interests held for investment by the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Market value in its existing state as at 30th April 2018
Flat D2 on 9th Floor, King's View Court, Nos.901-907 King's Road, Hong Kong	King's View Court comprises 24 residential storeys built on a car port and commercial podium. The building was completed in about 1976.	The Subject Property is tenanted at a monthly rent of HK\$25,000 (inclusive of Government rent, rates and management fee) for a term of 2 years commencing from 10th June 2017 to 9th June 2019 for residential purpose.	HK\$10,200,000 (Hong Kong Dollars Ten Million and Two Hundred Thousand Only)
238/65953 share of and in the Remaining Portion of Section A of Quarry Bay Marine Lot No.4 and the Remaining Portion of Section B of Quarry Bay Marine Lot No.4	<p>According to the Rating and Valuation Department, the saleable area (SA) of the property is: 63.9 sq.m or thereabouts (approx. 688 sq.ft.)</p> <p>The existing use of the property is a residential unit with one living /dining area, one ensuite master bedroom with bathroom, two bedrooms, one toilet bathroom and one kitchen with verandah. The internal condition is reasonable.</p> <p>The property is held under Government Lease for 75 years commencing from April 27, 1931 for the Remaining Portion of Section A of Quarry Bay Marine Lot No.4 and the Remaining Portion of Section B of Quarry Bay Marine Lot No.4.</p> <p>The Government Rent : New rent under Government Leases Ordinance from 27th April 2006 is \$2,776 per annum.</p>		

Notes:

1. The registered owner of the Property is Victory Securities Company Limited. It was assigned to the current owner for the consideration of HK\$980,000.00 registered vide memorial no. 11060100860603 dated 4th May 2011.
2. According to the information from the Land Registry, the Property is subject to the followings encumbrances:
 - i. Deed of Mutual Covenant registered vide memorial no. UB1370618 dated 8th March 1977.
 - ii. Order No. DR00101/HK/10 by the Building Authority under Section 28(3) of the Buildings Ordinance vide memorial No. 10062900530065 dated 1st April 2010.
 - iii. Mortgage in favour of Chong Hing Bank Limited to secure general banking facilities to an unlimited extent, registered vide memorial no. 13061100970052 dated 20th May 2013.
3. The Property falls within an area zoned as "Residential (Group A)" under North Point Outline Zoning Plan No. S/H8/26 gazetted on 25th August 2017.

APPENDIX III

PROPERTY VALUATION

4. As confirmed by the Company, the property is not subject to any options or rights of pre-emption and any proposed transaction between any other members of the Group.

5. The inspection was performed by Mr. Alan Au-Yeung *MRICS MHKIS RPS(GP)* on 4th January 2017.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

Summary of the Constitution of our Company and the Cayman Islands Company Law

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 22 August 2016 under the Cayman Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the *Memorandum*) and its Amended and Restated Articles of Association (the *Articles*).

1. MEMORANDUM OF ASSOCIATION

1.1 The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

1.2 By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 14 June 2018. A summary of certain provisions of the Articles is set out below.

2.1 Shares

(a) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(b) *Variation of rights of existing shares or classes of shares*

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such separate general meeting, provided that the necessary quorum (other than at an adjourned

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

meeting) shall be not less than two persons together holding (or, in the case of a shareholder being a corporation, by its duly authorised representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(c) Alteration of capital

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorised and subject to any conditions prescribed by law.

(d) Transfer of shares

Subject to the Cayman Companies Law and the requirements of the Stock Exchange, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House (as defined in the Articles) or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the GEM Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine (or such longer period as the members of the Company may by ordinary resolution determine, provided that such period shall not be extended beyond 60 days in any year).

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

(e) Power of the Company to purchase its own shares

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

(f) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(g) Calls on shares and forfeiture of shares

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20 per cent per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, as at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent per annum as the Board may prescribe.

2.2 Directors

(a) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one-third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgement of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the retirement by rotation provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

- (i) resigns;
- (ii) dies;
- (iii) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (iv) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

**APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

- (v) he is prohibited from being or ceases to be a director by operation of law;
- (vi) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (vii) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or
- (viii) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(b) Power to allot and issue shares and warrants

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, provided that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(c) Power to dispose of the assets of the Company or any of its subsidiaries

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(d) Borrowing powers

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(e) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, *pro rata*. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(f) Compensation or payments for loss of office

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

(g) Loans and provision of security for loans to Directors

Except as would, if our Company were a company incorporated in Hong Kong, be permitted by the Companies Ordinance as in force as at the date of adoption of the Articles, and except as permitted under the Companies Law, the Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(h) Disclosure of interest in contracts with the Company or any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (i) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

2.3 Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.4 Alterations to the constitutional documents and the Company's name

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

2.5 Meetings of member

(a) Special and ordinary resolutions

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An ordinary resolution, by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or by proxy at a general meeting of which notice has been duly given.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(b) Voting rights and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company, provided that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the GEM Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

- (i) at least two members;
- (ii) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iii) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

Where the Company has knowledge that any member is, under the GEM Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(c) Annual general meetings

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(d) Notices of meetings and business to be conducted

An annual general meeting of the Company shall be called by at least 21 days' (and not less than 20 clear business days') notice in writing, and any other general meeting of the Company shall be called by at least 14 days' (and not less than 10 clear business days') notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Cayman Companies Law and the GEM Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95 per cent of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(e) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(f) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

2.6 Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory, the Company may send summarised financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

2.7 Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (a) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- (b) all dividends shall be apportioned and paid *pro rata* in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and
- (c) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (i) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (ii) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20 per cent per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

2.8 Inspection of corporate records

For so long as any part of the share capital of the Company is [REDACTED] on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

2.9 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarised in paragraph 3.6 of this Appendix.

2.10 Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (a) if the Company is wound up and the assets available for distribution among the members of the Company are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* among such members in proportion to the amount paid up on the shares held by them respectively; and
- (b) if the Company is wound up and the assets available for distribution among the members as such are insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, provided that no member shall be compelled to accept any shares or other property upon which there is a liability.

2.11 Subscription rights reserve

Provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 22 August 2016 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

3.1 Company operations

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

3.2 Share capital

Under Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the share premium account. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

- (c) any manner provided in section 37 of the Cayman Companies Law;
- (d) writing-off the preliminary expenses of the company; and
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

3.3 Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

3.4 Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

3.5 Dividends and distributions

Subject to a solvency test, as prescribed in the Cayman Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

3.6 Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss vs. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

3.7 Disposal of assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

3.8 Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2017 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

3.9 Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

3.10 Taxation

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that:

- (a) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciations shall apply to the Company or its operations; and
- (b) no tax be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The undertaking for the Company is for a period of 20 years from 13 December 2017.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

3.11 Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

3.12 Loans to directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

3.13 Inspection of corporate records

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

3.14 Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2017 Revision) of the Cayman Islands.

3.15 Register of Directors and officers

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 60 days of any change in such directors or officers, including a change of the name of such directors or officers.

3.16 Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

3.17 Reconstructions

Reconstructions and amalgamations may be approved by a majority in number representing 75 per cent in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (that is, the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

3.18 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90 per cent of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

3.19 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Harney Westwood & Riegels, the Company's legal adviser on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of the Companies Law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents delivered to the registrar of companies and available for inspection — Documents available for inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

APPENDIX V

STATUTORY AND GENERAL INFORMATION

A. FURTHER INFORMATION ABOUT OUR COMPANY AND THE SUBSIDIARIES

1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 22 August 2016 with our registered office located at P.O. Box 472, Harbour Place, 2nd Floor, 103 South Church Street, George Town, Grand Cayman KY1-1106, Cayman Islands. Our Company re-located its registered office to 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands on 28 August 2017. Our Company has established a place of business in Hong Kong at Room 1101-3, 11th Floor, Yardley Commercial Building, 3 Connaught Road West, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 8 December 2016. In connection with such registration, Ms. Kou Kuen has been appointed as the authorised representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company is incorporated in the Cayman Islands, we are subject to the relevant laws of the Cayman Islands and our constitution, which comprises the Memorandum and the Articles. A summary of the relevant aspect of the Companies Law and certain provisions of the Articles is set out in Appendix IV to this document.

2. Changes in share capital of our Company

- (a) As at the date of incorporation of our Company, the authorised share capital of our Company was US\$50,000.00 divided into 100,000,000 Shares of US\$0.0005 each, of which one Share was allotted and issued fully paid to an initial nominee subscriber at par.
- (b) On the date of incorporation of our Company, the one Share held by the initial nominee subscriber was transferred to DTTKF at par; and 49,999 Shares were also issued and allotted as fully paid to DTTKF at par.
- (c) On 14 September 2017, the authorised share capital of our Company was increased from US\$50,000 divided into 100,000,000 shares each with a par value of US\$0.0005 to the aggregate of US\$50,000 and HK\$390,000 by creation of an additional 39,000,000 shares each with a par value of HK\$0.01. On the same date, our Company allotted and issued 19,500 shares of HK\$0.01 par value each to DTTKF, immediately followed by the repurchase of 50,000 shares each with a par value of US\$0.0005 each held by DTTKF. On the same date, the authorised but unissued share capital of our Company was reduced by cancellation of 100,000,000 shares of US\$0.0005 par value each, such that the authorised share capital of our Company became HK\$390,000 divided into 39,000,000 Shares of HK\$0.01 par value each.
- (d) On 14 June 2018, the authorised share capital of our Company was increased from HK\$390,000 to [REDACTED] by the creation of an additional [REDACTED] Shares of which the rights are identical to those of the existing Shares in all aspects.
- (e) Immediately following completion of the Capitalisation Issue and the [REDACTED], [REDACTED] Shares will be issued fully paid or credited as fully paid, and [REDACTED] Shares will remain unissued.

APPENDIX V

STATUTORY AND GENERAL INFORMATION

- (f) Other than the general mandate to issue Shares referred to in the paragraph headed “4. Written resolutions of our sole Shareholder” in this Appendix, we do not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares which would effectively alter the control of our Company will be made.

Save as disclosed above, there has been no alteration in our Company’s share capital since its incorporation.

3. Changes in share capital of the subsidiaries of our Company

Our Company’s subsidiaries are listed in the accountants’ report, the text of which is set out in Appendix I to this document.

Save as disclosed in the section headed “History, Development and Reorganisation” in this document, there has been no other change to the share capital of any of the subsidiaries of our Company within the two years immediately prior to the date of this document.

4. Written resolutions of our sole Shareholder

Pursuant to the written resolutions of our sole Shareholder passed on 14 June 2018:

- (a) the authorised share capital of our Company was increased from HK\$390,000 divided into 39,000,000 Shares of HK\$0.01 each to [REDACTED] divided into [REDACTED] Shares of HK\$0.01 each by the creation of an additional [REDACTED] Shares;
- (b) conditional upon the conditions stated in the paragraph headed “Structure and Conditions of the [REDACTED] — Conditions of the [REDACTED]” in this document being fulfilled or waived (as the case may be):
- (i) the [REDACTED] was approved and confirmed and our Directors or any committee of our Board were authorised to allot and issue the [REDACTED] pursuant to the [REDACTED];
- (ii) the Share Option Scheme was approved and adopted with such additions, amendments or modifications thereto as may be approved by our Directors or any committee of our Board and our Directors or any committee of our Board were authorised to implement the Share Option Scheme, to grant options thereunder and to allot, issue and deal with our Shares thereunder and to take all such steps as may be necessary, desirable or expedient to carry into effect the Share Option Scheme;
- (iii) conditional on the share premium account of our Company being credited as a result of the [REDACTED], our Directors were authorised to capitalise a maximum amount of [REDACTED] standing to the credit of the share premium account of our Company and to apply such amount in paying up in full at par [REDACTED] Shares for

APPENDIX V

STATUTORY AND GENERAL INFORMATION

allotment and issue to the holders of issued Shares whose names appear on the register of members of our Company at close of business on 14 June 2018 (or as it may direct), and our Directors were authorised to give effect to such capitalisation and distribution;

- (iv) a general unconditional mandate was given to our Directors to allot, issue and deal with unissued Shares (otherwise than (i) by way of rights issue; (ii) scrip dividend or similar arrangement in accordance with the Memorandum and the Articles; (iii) an issue of Shares pursuant to the exercise of options granted under the Share Option Scheme; (iv) under the [REDACTED]; or (v) under the Capitalisation Issue) with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the share capital of our Company in issue immediately upon completion of the Capitalisation Issue and the [REDACTED] (without taking into account any Shares which may be issued upon the exercise of the [REDACTED] and any options which may be granted under the Share Option Scheme). Such mandate will expire at the conclusion of the next annual general meeting of our Company; or the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or any applicable laws of the Cayman Islands to be held; or when revoked, varied or renewed by an ordinary resolution of our Shareholders in a general meeting, whichever occurs first;
- (v) a general unconditional mandate (“**Repurchase Mandate**”) was given to our Directors authorising them to exercise all powers of our Company to repurchase on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, in accordance with all applicable laws and the requirements of the GEM Listing Rules (or of such other stock exchange), such number of Shares as will represent up to 10% of the aggregate nominal amount of the share capital of our Company in issue immediately upon completion of the Capitalisation Issue and the [REDACTED] (excluding Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme). Such mandate will expire at the conclusion of the next annual general meeting of our Company; or the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or any applicable laws of the Cayman Islands to be held; or when revoked, varied or renewed by an ordinary resolution of our Shareholders in a general meeting, whichever occurs first;
- (vi) the general unconditional mandate as mentioned in sub-paragraph (iv) above was extended by the addition to the aggregate nominal amount of the share capital of our Company which may be allotted or agreed to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase shares referred to in sub-paragraph (v) above;
- (vii) an undertaking to be given to the Stock Exchange relating to the exercise of the Repurchase Mandate; and

APPENDIX V

STATUTORY AND GENERAL INFORMATION

- (viii) the Memorandum and the Articles were approved and adopted, the terms of which are summarised in Appendix IV to this document.

5. Corporate reorganisation

Please refer to the section headed “History, Development and Reorganisation” in this document.

6. Repurchase by our Company of its own securities

This section contains information required by the Stock Exchange to be included in this document concerning the repurchase by our Company of its own securities. The GEM Listing Rules permit companies whose primary listing is on GEM to repurchase in cash their securities on GEM subject to certain restrictions, a summary of which is set out below:

(a) Shareholders’ approval

All proposed repurchases of securities, which must be fully paid up in the case of shares, on GEM by a company with its primary listing on GEM must be approved in advance by an ordinary resolution of its shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to the written resolutions passed by our sole Shareholder on 14 June 2018, the Repurchase Mandate was granted to our Directors authorising them to exercise all powers for and on behalf of our Company to repurchase its Shares on GEM, or on any other approved stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, with an aggregate nominal amount not exceeding 10% of the total nominal amount of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the [REDACTED] (without taking into account any Shares which may be issued upon the exercise of the [REDACTED] and any options which may be granted under the Share Option Scheme) at any time until the conclusion of the next annual general meeting of our Company; the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or any applicable laws of the Cayman Islands to be held; or when such mandate is revoked, varied or renewed by an ordinary resolution of our Shareholders in a general meeting, whichever is the earliest.

(b) Source of funds

Any repurchase by our Company may only be funded out of funds legally available for such purpose in accordance with the Memorandum and the Articles, the applicable laws of the Cayman Islands and the GEM Listing Rules. Our Company may not repurchase its own securities on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Under the Cayman Islands law, any repurchase by our Company may be made out of profits of our Company, out of our Company’s share premium account or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if so authorised by the Memorandum and the Articles and subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or repurchase over the par value of the Shares to be purchased must be

APPENDIX V

STATUTORY AND GENERAL INFORMATION

provided for out of either or both of the profits of our Company or our Company’s share premium account before or at the time the Shares are redeemed or repurchased or, if authorised by the Memorandum and the Articles and subject to the provisions of the Companies Law, out of capital.

(c) Exercise of the Repurchase Mandate

On the basis of exercise in full of the Repurchase Mandate, on the basis of [REDACTED] Shares in issue immediately after completion of the Capitalisation Issue and the [REDACTED] (but taking no account of any Shares which may be issued under the [REDACTED] or upon the exercise of any options which may be granted under the Share Option Scheme), our Directors would be authorised under the Repurchase Mandate to repurchase up to [REDACTED] Shares during the period in which the Repurchase Mandate remains in force.

The GEM Listing Rules provide that the shares which are proposed to be repurchased by a company must be fully paid up.

(d) Dealing restrictions

Our Company may repurchase up to 10% of the total nominal amount of our share capital in issue immediately following completion of the Capitalisation Issue and the [REDACTED] (but without taking into account any Shares which may be issued upon the exercise of the [REDACTED] and any options that may be granted under the Share Option Scheme).

Our Company shall not repurchase the Shares on GEM if that repurchase would result in the number of our Shares which are in the hands of the public falling below the minimum percentage required by the Stock Exchange. Our Company may not make a new issue of Shares or announce a proposed new issue of Shares for a period of 30 days after any repurchase of the Shares without the prior approval of the Stock Exchange. Our Company is also prohibited from repurchasing our Shares on GEM at any time after inside information has come to our knowledge until the information is made publicly available.

Our Company shall procure that any broker appointed by our Company to effect the repurchase shall disclose to the Stock Exchange such information with respect to the repurchase made on behalf of our Company as the Stock Exchange may request.

(e) Connected persons

The GEM Listing Rules prohibit our Company from knowingly repurchasing our Shares on the Stock Exchange from a “core connected person”, which includes a Director, chief executive or substantial Shareholder or any of the subsidiaries of our Company or an associate of any of them and a core connected person shall not knowingly sell Shares to our Company.

(f) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have general authority from our Shareholders to enable our Company to

APPENDIX V

STATUTORY AND GENERAL INFORMATION

repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of our Company's net asset value per Share and/or earnings per Share and will only be made if our Directors believe that such repurchases will benefit our Company and our Shareholders.

(g) Funding of repurchases

In repurchasing our Shares, our Company may only apply funds legally available for such purpose in accordance with the Memorandum and the Articles, the applicable laws of the Cayman Islands and the GEM Listing Rules.

Our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements or the gearing levels of our Company which, in the opinion of our Directors, are from time to time appropriate for our Company.

(h) General

None of our Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their associates (as defined in the GEM Listing Rules), has any present intention to sell any Shares to our Company if the Repurchase Mandate is exercised.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. In certain circumstances, a Shareholder or a group of Shareholders acting in concert could as a result of increase of its or their interest, obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchase of Shares if made immediately after the [REDACTED] pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the GEM Listing Rules).

No connected person (as defined in the GEM Listing Rules) has notified our Company that he has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

APPENDIX V

STATUTORY AND GENERAL INFORMATION

B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of our Group within the two years preceding the date of this document and are or may be material:

- (a) the Share Swap Agreement dated 25 May 2017 entered into between Victory Securities (BVI) (as purchaser), Ms. Kou, Ms. Kou Luen, Mr. Chan, Mr. Chiu, Mr. Ko Yuen Fai, Mr. Ko Yuen Kwan, Mr. Ko Yuen San, Mr. Ko Yuen Sing, Ms. Kwok Lo Ming, Ms. Meng Li, Mr. Sze Tung, Mr. Yeung Tak Kuen and Mr. Chan Pui Chuen (together as vendors), DTTKF and our Company, pursuant to which Ms. Kou, Ms. Kou Luen, Mr. Chan, Mr. Chiu, Mr. Ko Yuen Fai, Mr. Ko Yuen Kwan, Mr. Ko Yuen San, Mr. Ko Yuen Sing, Ms. Kwok Lo Ming, Ms. Meng Li, Mr. Sze Tung, Mr. Yeung Tak Kuen and Mr. Chan Pui Chuen transferred the entire issued share capital of Victory Securities (HK) to Victory Securities (BVI) in consideration of DTTKF allotting and issuing 66,625,000 shares, 10,500,000 shares, 6,709,500 shares, 2,000,000 shares, 1,890,000 shares, 3,780,000 shares, 945,000 shares, 945,000 shares, 3,307,500 shares, 1,350,000 shares, 600,000 shares, 1,300,000 shares and 48,000 shares of DTTKF to Ms. Kou, Ms. Kou Luen, Mr. Chan, Mr. Chiu, Mr. Ko Yuen Fai, Mr. Ko Yuen Kwan, Mr. Ko Yuen San, Mr. Ko Yuen Sing, Ms. Kwok Lo Ming, Ms. Meng Li, Mr. Sze Tung, Mr. Yeung Tak Kuen and Mr. Chan Pui Chuen, respectively, all credited as fully paid up in the capital of DTTKF;
- (b) a deed of non-competition dated 14 June 2018 and executed by our Controlling Shareholders in favour of our Company, details of which are set out in the paragraph headed “Relationship with our Controlling Shareholders — Deed of Non-Competition” in this document;
- (c) a deed of indemnity dated 14 June 2018 and executed by our Controlling Shareholders in favour of our Company containing the indemnities more particularly referred to in the paragraph headed “E. Other information — 1. Tax indemnity and other indemnity” of this Appendix;
- (d) [REDACTED]; and
- (e) [REDACTED].



APPENDIX V

STATUTORY AND GENERAL INFORMATION


2. Intellectual property rights of our Group

(a) Trademark

As at the Latest Practicable Date, our Group made the following trademark application whose registration vetting process is pending:

Trademark	Registered Owner	Class	Application No.
A  VICTORY 勝利 SECURITIES 證券	The Company	16, 35, 36	304470417
B  VICTORY 勝利 SECURITIES 證券			

As at the Latest Practicable Date, our Group has been granted an exclusive right by DTTKF to use the following trademark:

Trademark	Registered Owner	Class	Trade Mark No.	Expiry Date
 勝利證券有限公司 Victory Securities Co., Ltd. (香港聯合交易所參與者) (Participant of The Stock Exchange of HK Ltd.)	DTTKF <i>(Note)</i>	16, 35, 36	303987406	7 December 2026

Note: On 14 June 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. For details of the licence, please refer to the paragraph headed “Connected Transactions — B. Trademark licence deed” in this document.

(b) Domain name

As at the Latest Practicable Date, our Group has registered the following domain name:

Domain name	Registrant	Expiry Date
https://www.victorysec.com.hk	Victory Securities (HK)	null

APPENDIX V

STATUTORY AND GENERAL INFORMATION

C. FURTHER INFORMATION ABOUT DIRECTORS, SENIOR MANAGEMENT AND SUBSTANTIAL SHAREHOLDERS

1. Interests and short positions of Directors and chief executive in the shares, underlying shares and debentures of our Company and its associated corporations

Immediately following completion of the Capitalisation Issue and the [REDACTED] and without taking into account of any Shares which may be issued upon the exercise of the [REDACTED] and any options which may to be granted under the Share Option Scheme, the interests and short positions of our Directors and chief executive of our Company in our shares, underlying shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) which, once our Shares are [REDACTED] on the Stock Exchange, will have to be notified to our Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to our Company and the Stock Exchange, will be as follows:

(i) *Long position in the Shares*

Name of Director	Capacity/ nature of interest	Number of shares⁽¹⁾	Approximate percentage of interest in our Company
Ms. Kou ⁽²⁾	Interest in a controlled corporation	[REDACTED] (L)	[REDACTED]
Mr. Chan ^{(2) and (3)}	Interest of spouse	[REDACTED] (L)	[REDACTED]

Notes:

- (1) The letter “L” denotes the person’s long position in the Shares.
- (2) DTTKF is the registered owner of [REDACTED] Shares, representing [REDACTED] of our issued share capital immediately upon completion of the Capitalisation Issue and [REDACTED] (without taking into account any Shares which may be issued upon exercise of the [REDACTED] and any options which may be granted under the Share Option Scheme). DTTKF is owned by Ms. Kou, Ms. Kou Luen, Mr. Chan, Mr. Chiu, Mr. Ko Yuen Fai, Mr. Ko Yuen Kwan, Mr. Ko Yuen San, Mr. Ko Yuen Sing, Ms. Kwok Lo Ming, Ms. Meng Li, Mr. Sze Tung, Mr. Yeung Tak Kuen and Mr. Chan Pui Chuen in the proportion of approximately 66.63%, 10.50%, 6.71%, 2.00%, 1.89%, 3.78%, 0.94%, 0.94%, 3.31%, 1.35%, 0.60%, 1.30% and 0.05%, respectively. Accordingly, Ms. Kou is deemed to be interested in all Shares held by DTTKF under the SFO.
- (3) Mr. Chan is the spouse of Ms. Kou. Under the SFO, Mr. Chan is deemed to be interested in the same number of Shares in which Ms. Kou is interested.

APPENDIX V

STATUTORY AND GENERAL INFORMATION

(ii) *Long position in the ordinary shares of associated corporation*

Name of Director	Name of associated corporation	Capacity/nature of interest	Number of shares held	Approximate percentage of interest
Ms. Kou	DTTKF	Beneficial owner	133,250,000	66.30%
Mr. Chan	DTTKF	Beneficial owner	13,419,000	6.71%
Mr. Chiu	DTTKF	Beneficial owner	4,000,000	2.00%
Mr. Chan Pui Chuen	DTTKF	Beneficial owner	48,000	0.05%

2. Interests and short positions of substantial Shareholders in the shares, underlying shares and debentures of our Company and our associated corporations

Immediately following completion of the Capitalisation Issue and the [REDACTED] and without taking into account of any Shares which may be issued upon the exercise of the [REDACTED] and any options which may be granted under the Share Option Scheme, so far as it is known to our Directors, the following person, not being a Director or chief executive of our Company, will have an interest or short position in the Shares and underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group:

Name	Capacity/nature of interest	Number of shares⁽¹⁾	Approximate percentage of interest in our Company
DTTKF ⁽²⁾	Beneficial owner	[REDACTED]	[REDACTED]

Notes:

(1) The letter “L” denotes the person’s long position in the Shares.

(2) DTTKF is the registered owner of [REDACTED] Shares, representing [REDACTED] of our issued share capital immediately upon completion of the Capitalisation Issue and [REDACTED] (without taking into account of any Share which may be issued upon exercise of the [REDACTED] and any option which may be granted under the Share Option Scheme). DTTKF is owned by Ms. Kou, Ms. Kou Luen, Mr. Chan, Mr. Chiu, Mr. Ko Yuen Fai, Mr. Ko Yuen Kwan, Mr. Ko Yuen San, Mr. Ko Yuen Sing, Ms. Kwok Lo Ming, Ms. Meng Li, Mr. Sze Tung, Mr. Yeung Tak Kuen and Mr. Chan Pui Chuen in the proportion of approximately 66.63%, 10.50%, 6.71%, 2.00%, 1.89%, 3.78%, 0.94%, 0.94%, 3.31%, 1.35%, 0.60%, 1.30% and 0.05%, respectively. Accordingly, Ms. Kou is deemed to be interested in all Shares held by DTTKF under the SFO.

APPENDIX V

STATUTORY AND GENERAL INFORMATION

3. Particulars of service agreements and letters of appointment

(a) *Executive Directors*

Each of our executive Directors has entered into a service agreement with our Company. The terms and conditions of each of such service agreements are similar in all material aspects. Each service agreement is for an initial term of three years with effect from the [REDACTED] and shall continue thereafter unless and until it is terminated by our Company or our Director giving to the other not less than three months' prior notice in writing. Under the service agreements, the initial annual salary payable to our executive Directors is as follows:

Name	HK\$
Ms. Kou	1,000,000
Mr. Chiu	900,000
Mr. Chan Pui Chuen	560,000

Each of our executive Directors is entitled to a discretionary bonus, the amount of which is determined with reference to the operating results of our Group and the performance of our executive Director. Each of our executive Directors shall abstain from voting and not be counted in the quorum in respect of any resolution of our Board regarding the amount of annual salary and discretionary bonus payable to himself.

(b) *Non-executive Director and independent non-executive Directors*

Each of our non-executive Director and independent non-executive Directors has entered into a letter of appointment with our Company under which each of them is appointed for a period of three years with effect from the [REDACTED] and shall continue thereafter unless and until it is terminated by our Company or our Director giving to the other not less than three months' prior notice in writing. The annual director's fee payable to each of our non-executive Director and independent non-executive Directors is as follows:

Name	HK\$
<i>Non-executive Director</i>	
Mr. Chan	180,000
<i>Independent non-executive Directors</i>	
Mr. Leung Kwong Kin	160,000
Mr. Liu Chun Ning Wilfred	160,000
Dr. Yan Ka Shing	Nil ^(Note)

Note: Dr. Yan Ka Shing decides not to receive remuneration for his personal reasons.

Save as disclosed above, none of our Directors has or is proposed to have any service agreement with our Company or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

APPENDIX V

STATUTORY AND GENERAL INFORMATION

4. Remuneration of Directors

Our Company’s policies concerning remuneration of our Directors are as follows:

- (a) the amount of remuneration is determined by the Remuneration Committee and on the basis of the relevant Director’s experience, responsibility, workload and the time devoted to our Group;
- (b) non-cash benefits may be provided to our executive Directors under their remuneration package; and
- (c) our Directors may be granted, at the discretion of our Board, options pursuant to the Share Option Scheme, as part of their remuneration package.

During the financial years ended 31 December 2016 and the 2017, the aggregate emoluments (including director’s fee, salaries, commission and other benefits, discretionary bonus and contributions to retirement benefits scheme) paid by our Group to our Directors were HK\$1.6 million and HK\$3.7 million respectively. For further details in respect of our Directors’ remuneration, please refer to the Appendix I to this document.

It is expected that an aggregate of approximately HK\$2.7 million will be paid as remuneration (excluding payment pursuant to any benefits, bonus, granting of share options or other fringe benefits) to our Directors by our Group in respect of the financial year ending 31 December 2018 pursuant to the present arrangement.

Save as disclosed in Appendix I to this document, none of our Directors received any other remuneration or benefits in kind from our Group during the Track Record Period.

5. Agency fees or commissions received

For information on the agency fees or commissions payable to the [REDACTED], please refer to the paragraph headed “[REDACTED]” in this document.

Save as disclosed herein and in the section headed “Directors, Senior Management and Staff” in this document and Appendix I to this document, none of our Directors or experts (as named in the paragraph headed “E. Other Information — 8. Qualifications of experts” in this Appendix) received or will be entitled to receive any agency fees, commissions, discounts, brokerages or other special terms in connection with the issue of any Share of our Company within two years immediately preceding the date of this document.

6. Related party transactions

During the two years preceding the date of this document, our Group was engaged in related party transactions as described in Note 37 of Appendix I to this document.

APPENDIX V

STATUTORY AND GENERAL INFORMATION

7. Disclaimers

- (i) Save as disclosed above and in the paragraph headed “C. Further information about directors, senior management and substantial shareholders” in this appendix, none of our Directors has any existing or proposed service contracts with any member of our Group, excluding contracts which are expiring or determinable by the employer within one year without payment of compensation other than statutory compensation.
- (ii) So far as our Directors are aware, none of our Directors or experts referred to under the heading “Consents of Experts” of this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this document been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group.
- (iii) None of our Directors or experts referred to under the heading “Consents of Experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group taken as a whole.
- (iv) Save as disclosed above and in the paragraph headed “C. Further information about directors, senior management and substantial shareholders” in this appendix, our Directors are not aware of any person, not being a Director or chief executive of our Company, who will, immediately following completion of the Capitalisation Issue and the [REDACTED] (without taking into account of any Shares which may be issued upon the exercise of the [REDACTED] and any options which may be granted under the Share Option Scheme), be interested in or has short positions in the Shares or underlying Shares of our Company which have to be notified to our Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO once our Shares are [REDACTED] on the Stock Exchange, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.
- (v) Save as disclosed above and in the paragraph headed “C. Further information about directors, senior management and substantial shareholders” in this appendix, so far as our Directors are aware, none of our Directors or chief executive of our Company has any interest or short position in the Shares, underlying Shares or debentures of our Company or any of our associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he will be taken or deemed to have under such provisions of the SFO) once our Shares are [REDACTED] on the Stock Exchange, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein once our Shares are [REDACTED] on the Stock Exchange, or which will be required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by our Directors to be notified to our Company and the Stock Exchange, once our Shares are [REDACTED] on the Stock Exchange.
- (vi) None of the experts referred to under the heading “Consents of Experts” of this Appendix has any shareholding in any member of our Group or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

APPENDIX V

STATUTORY AND GENERAL INFORMATION

- (vii) So far as our Directors are aware, none of our Directors, their close associates or any Shareholder (which to the knowledge of our Directors owns more than 5% of our Company’s issued share capital) has any interest in our Group’s five largest clients or five largest suppliers.

D. SHARE OPTION SCHEME

The principal terms of the Share Option Scheme conditionally adopted under the written resolutions of our sole Shareholder passed on 14 June 2018 are set out below:

1. Purpose of the Share Option Scheme

The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions that Eligible Participants (as defined in paragraph 2 below) have made or may make to our Group.

The Share Option Scheme will provide the Eligible Participants with an opportunity to acquire proprietary interests in our Company with the view to achieving the following principal objectives:

- (a) motivate the Eligible Participants to optimise their performance and efficiency for the benefit of our Group; and
- (b) attract and retain or otherwise maintain ongoing business relationship with the Eligible Participants whose contributions are, will or expected to be beneficial to our Group.

2. Who may join and basis of eligibility

Our Board may at its discretion grant right(s) to subscribe for Share(s) pursuant to the terms of the Share Option Scheme (the “**Option**”) to any of the following persons (the “**Eligible Participants**”):

- (a) any Director, employee or officer of any company in our Group who is employed by any company in our Group (whether full time or part time) (the “**Employee**”), consultant, professional, customer, supplier, agent, partner or adviser of or contractor to our Group or a company in which our Group holds an interest or a subsidiary of such company (the “**Affiliate**”); or
- (b) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any Director, Employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to our Group or an Affiliate; or
- (c) a company beneficially owned by any Director, Employee, consultant, professional, customer, supplier, agent, partner, adviser of or contractor to our Group or an Affiliate.

APPENDIX V

STATUTORY AND GENERAL INFORMATION

3. Price of Shares

The exercise price for any Share under the Share Option Scheme shall be a price determined by the Board and notified to each Eligible Participants who accepts the offer (the “Offer”) by our Company to that Eligible Participant to accept an Option in accordance with the terms of this Scheme (the “Grantee”), and where the context permits, include any person who is entitled to any Option in consequent of the death of the original Grantee (being an individual) (in the letter containing the Offer of the grant of the Option) and shall not be less than the highest of:

- (a) the closing price of a Share as stated in the Stock Exchange’s daily quotations sheet on the date of grant of the relevant Option, which must be a day on which the Stock Exchange is open for the business of dealing in securities (the “Trading Day”);
- (b) an amount equivalent to the average closing price of a Share as stated in the Stock Exchange’s daily quotations sheets for the five Trading Days immediately preceding the date of grant of the relevant Option; and
- (c) the nominal value of a Share on the date of grant.

4. Grant of Option and acceptance of Offer

An Offer shall be deemed to have been accepted when our Company receives the letter containing the Offer duly signed by the Grantee together with a remittance of HK\$1.00 (or such other nominal sum in any currency as the Board may determine) in favour of our Company as consideration for the grant thereof. Such remittance shall in no circumstances be refundable. Once accepted, the Option is granted as from the date on which it was offered to the relevant Eligible Participant.

5. Maximum number of Shares

- (a) Subject to paragraphs (b) to (d) below, the maximum number of Shares which may be issued upon exercise of all options granted under the Share Option Scheme and any other schemes must not, in aggregate, exceed [REDACTED] Shares, being 10% of the Shares in issue as at the [REDACTED] (the “Scheme Mandate Limit”) unless approved by the Shareholders of our Company pursuant to paragraph (c) below. Options lapsed in accordance with the terms of the Share Option Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.
- (b) Subject to paragraphs (c) and (d) below, the Scheme Mandate Limit may be renewed by the Shareholders of our Company in general meeting from time to time provided always that the Scheme Mandate Limit so renewed must not exceed 10% of the Shares in issue as at the date of approval of such renewal by Shareholders of our Company in general meeting. Upon such renewal, all options granted under the Share Option Scheme and any other share option schemes of our Company (including those exercised, outstanding, cancelled, lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) prior to the approval of such renewal shall not be counted for the purpose

APPENDIX V

STATUTORY AND GENERAL INFORMATION

of calculating the Scheme Mandate Limit as renewed. A circular must be sent to the Shareholders of our Company containing such relevant information from time to time as required by the GEM Listing Rules in connection with the general meeting at which their approval is sought.

- (c) Subject to paragraph (d) below, the Board may seek separate Shareholders' approval in general meeting to grant Options beyond the Scheme Mandate Limit provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Participants specifically identified by our Company before such approval is sought and our Company must issue a circular to the Shareholders of our Company containing such relevant information from time to time as required by the GEM Listing Rules in relation to any such proposed grant to such Eligible Participants.
- (d) The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes involving the issue or grant of options or similar rights over Shares or other securities by our Company must not, in aggregate, exceed 30% of the Shares in issue from time to time. Notwithstanding anything to the contrary in the terms of the Share Option Scheme, no options may be granted under the Share Option Scheme or any other share option schemes of our Company if this will result in the said 30% limit being exceeded.

6. Maximum entitlement of each Eligible Participant

The total number of Shares issued and to be issued upon exercise of the Options granted to each Eligible Participant (including both exercised and outstanding Options) in any 12-month period must not exceed 1% of the Shares in issue. Any grant of further Options above this limit shall be subject to the following requirements:

- (a) approval of the Shareholders of our Company at general meeting, with such Eligible Participant and his/her close associates (or his associates if the Eligible Participant is a connected person) abstaining from voting;
- (b) a circular in relation to the proposal for such further grant having been sent by our Company to its Shareholders with such information from time to time as required by the GEM Listing Rules;
- (c) the number and terms of the Options to be granted to such proposed Eligible Participant shall be fixed before the Shareholders' approval mentioned in paragraph (a) above; and
- (d) for the purpose of calculating the minimum exercise price for the Shares in respect of the further Options proposed to be so granted, the date of the Board meeting for proposing such grant of further Options shall be taken as the date of offer of such Options.

APPENDIX V

STATUTORY AND GENERAL INFORMATION

7. Grant of Options to certain connected persons

Any grant of Options to any Director, chief executive or substantial Shareholder of our Company, or any of their respective associates, must be approved by the independent non-executive Directors (but excluding, for all purposes, any independent non-executive Director who is a proposed Eligible Participant).

Where any grant of Options to a substantial Shareholder or an independent non-executive Director or any of their respective associates would result in the total number of the Shares issued and to be issued upon exercise of the Options granted and to be granted (including Options exercised, cancelled and outstanding) to such person in any 12-month period up to and including the date of the grant:

- (a) representing in aggregate over 0.1% of the Shares in issue; and
- (b) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million,

such further grant of Options must be approved by the Shareholders of our Company on a poll in a general meeting where the Grantee, his associates and all core connected persons of our Company must abstain from voting (except where such connected person(s) intends to vote against the proposed grant of Option and his intention to do so has been stated in the circular to be sent to our Company's Shareholders). Our Company will send a circular to the Shareholders containing the information required under the GEM Listing Rules.

8. Restrictions on the time of grant of Options

Our Board shall not offer the grant of an Option to any Eligible Participant:

- (a) after inside information has come to the knowledge of our Company until such inside information has been announced pursuant to the relevant requirements of the GEM Listing Rules; or
- (b) during the period commencing one month immediately preceding the earlier of:
 - (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of our Company's results for any year, half-year, quarter-year period or any other interim period (whether or not required under the GEM Listing Rules); and
 - (ii) the deadline for our Company to publish an announcement of its results for any year, half-year or quarter-year period under the GEM Listing Rules or any other interim period (whether or not required under the GEM Listing Rules), and ending on the date of the results announcement.

APPENDIX V

STATUTORY AND GENERAL INFORMATION

The period during which no Option may be granted will cover any period of delay in the publication of a results announcement. “Inside Information” has the meaning defined in the SFO.

9. Time of exercise of Option

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed 10 years from the date of grant subject to the provisions of early termination thereof.

10. Performance targets

Save as determined by the Board and provided in the offer of grant of the Options, there is no performance target that must be achieved before the Options can be exercised.

11. Ranking of Shares

The Shares to be allotted upon the exercise of an Option shall be subject to all the provisions of the Memorandum and the Articles in force as at the allotment date and shall rank equally in all respects with the existing fully paid Shares in issue on the allotment date and accordingly shall entitle the holder to participate in all dividends or other distributions paid or made after the allotment date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be on or before the allotment date. Any Share allotted upon the exercise of an Option shall not carry voting rights until the name of the Grantee has been duly entered into the register of members of our Company as the holder thereof.

12. Rights are personal to Grantee

An Option shall be personal to the Grantee and shall not be assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any Option (each, a “Disposal”).

13. Rights on cessation of employment or services

- (a) In the event of death of a Grantee (being an individual) before exercising the Option in full, his legal personal representatives may exercise the Option up to the Grantee’s entitlement (to the extent exercisable as at the date of his death and not exercised) within the period of 12 months following his death or such longer period as the Board may determine.
- (b) Where a Grantee is an Employee, Director, consultant, professional, agent, partner, adviser of or contractor to our Group or an Affiliate at the time of the grant of the relevant Option(s) and his employment or service to our Company is terminated on the ground of disability, the Grantee may exercise the Option (to the extent exercisable as at the date on which such Grantee ceases to be an Employee, Director, consultant, professional, agent, partner, adviser of or contractor to our Group or an Affiliate and not exercised) within 6 months following such cessation or such longer period as the Board may determine.

APPENDIX V

STATUTORY AND GENERAL INFORMATION

- (c) Where a Grantee is an Employee at the time of the grant of the relevant Option(s), in the event that such Grantee shall cease to be an Employee but becomes, or continues to be, a consultant, professional, customer, supplier, agent, partner or adviser of or contractor to our Group or an Affiliate, then the Option (to the extent exercisable as at the date on which such Grantee ceases to be an Employee and not exercised) shall be exercised within 3 months following the date of such cessation or such longer period as the Board may determine.
- (d) Where a Grantee is an Employee at the time of the grant of the relevant Option(s), in the event that such Grantee shall cease to be an Employee but becomes, or continues to be, a Director of our Group or an Affiliate, then the Option(s) (to the extent exercisable as at the date on which such Grantee ceases to be an Employee and not exercised) granted prior to the date of his becoming a Director of our Group or an Affiliate shall remain exercisable until its expiry in accordance with the provisions of the Share Option Scheme and the terms and conditions upon which such Option(s) is granted unless the Board shall determine to the contrary.
- (e) Subject to paragraphs (c) and (d) above, in the event of a Grantee who is an Employee ceasing to be an Employee for any reason other than his death, disability or the termination of his employment on the grounds that he has been guilty of serious misconduct or has been convicted of any criminal offence involving his/her integrity or honesty, the Grantee may exercise the Option (to the extent exercisable as at the date of the relevant event and not exercised) within 30 days following such cessation.
- (f) In the event of a Grantee, who is a Director, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to our Group or an Affiliate but not an Employee, ceasing to be a Director, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to our Group or an Affiliate (as the case may be) for any reason other than his death (in the case of a Grantee being an individual) or disability (in the case of a Grantee being a Director or consultant of our Group or an Affiliate), the Option (to the extent exercisable as at the date of such cessation and not exercised) shall be exercised within 30 days following the date of such cessation or such longer period as the Board may determine.

14. Rights on a general offer

If a general offer (whether by way of takeover offer as defined in the Takeovers Code or scheme of arrangement or otherwise in like manner) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and such offer becomes or is declared unconditional, each Grantee shall be entitled to exercise the Option (to the extent exercisable as at the date on which the general offer becomes or is declared unconditional and not exercised) in full or in part at any time within 14 days after the date on which the offer becomes or is declared unconditional.

APPENDIX V**STATUTORY AND GENERAL INFORMATION**

15. Rights on winding-up

In the event that a notice is given by our Company to our Shareholders to convene a Shareholders’ meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up our Company, our Company shall forthwith give notice thereof to all Grantees and each Grantee may, by notice in writing to our Company accompanied by the remittance for the total exercise price payable in respect of the exercise of the relevant Option (such notice to be received by our Company not later than two Business Days (excluding any period(s) of closure of our Company’s share registers) prior to the proposed meeting) exercise the Option (to the extent exercisable as at the date of the notice to the Grantee and not exercised) either in full or in part and our Company shall, as soon as possible and in any event no later than the Trading Day (excluding any period(s) of closure of our Company’s share registers) immediately prior to the date of the proposed Shareholders’ meeting, allot and issue such number of Shares to the Grantee which falls to be issued on such exercise.

16. Rights on compromise or arrangement

In the event of a compromise or arrangement between our Company and its members or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of our Company (other than any relocation schemes as contemplated in Rule 10.18(3) of the GEM Listing Rules), our Company shall give notice thereof to all Grantees on the same date as it gives notice of the meeting to its members or creditors to consider such a scheme of arrangement, and thereupon each Grantee may, by notice in writing to our Company accompanied by the remittance for the total exercise price payable in respect of the exercise of the relevant Option (such notice to be received by our Company not later than two Business Days (excluding any period(s) of closure of our Company’s share registers) prior to the proposed meeting) exercise the Option (to the extent exercisable as at the date of the notice to the Grantee and not exercised) either in full or in part and our Company shall, as soon as possible and in any event no later than the Trading Day (excluding any period(s) of closure of our Company’s share registers) immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the Grantee which falls to be issued on such exercise credited as fully paid and registered the Grantee as holder thereof.

17. Effects of alterations to share capital

In the event of any alteration in the capital structure of our Company while an Option remains exercisable, and such event arises from a capitalisation of profits or reserves, rights issue, consolidation, reclassification, subdivision or reduction of capital of our Company, such corresponding alterations (if any) shall be made in:

- (a) number or nominal amount of Shares subject to the Options so far as unexercised; and/or
- (b) the exercise price; and/or
- (c) the method of the Options; and/or
- (d) the maximum number of Shares that may be issued pursuant to the Share Option Scheme.

APPENDIX V

STATUTORY AND GENERAL INFORMATION

Any adjustments required under this paragraph must give a Grantee the same proportion of the equity capital as that to which that Grantee was previously entitled and shall be made on the basis that the aggregate exercise price payable by a Grantee on the full exercise of any Option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event, but no such adjustments may be made to the extent that the Shares would be issued at less than nominal value and, unless with the prior approval of our Shareholders in general meeting, no such adjustments may be made to the advantage of the Grantee. For the avoidance of doubt, the issue of securities as consideration in a transaction may not be regarded as a circumstance requiring adjustment. In respect of any such adjustments, other than any made on a capitalisation issue, the independent financial adviser of our Company or the auditors of our Company must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provisions of the GEM Listing Rules and the supplementary guidance set out in the letter issued by the Stock Exchange dated 5 September 2005 and any further guidance/interpretation of the GEM Listing Rules issued by the Stock Exchange from time to time.

18. Lapse of Options

An Option (to the extent that such Option has not already been exercised) shall lapse and not be exercisable on the earliest of:

- (a) the expiry of the exercise period as set out in paragraph 9 above;
- (b) the expiry of any of the periods referred to in paragraphs 13, 14, 15 and 16 above;
- (c) subject to paragraph 15 above, the date of the commencement of the winding-up of our Company;
- (d) the date when the proposed compromise or arrangement becomes effective in respect of the situation contemplated in paragraph 16 above;
- (e) the date on which a Grantee who is an Employee ceases to be an Employee by reason of the termination of his employment on the grounds that he has been guilty of serious misconduct or has been convicted of any criminal offence involving his integrity or honesty. A resolution of the Board to the effect that the employment of a Grantee who is an Employee has or has not been terminated on one or more grounds specified in this paragraph shall be conclusive and binding on the Grantee;
- (f) the happening of any of the following events, unless otherwise waived by the Board:
 - (i) any liquidator, provisional liquidator, receiver or any person carrying out any similar function has been appointed anywhere in the world in respect of the whole or any part of the asset or undertaking of a Grantee (being a corporation);
 - (ii) a Grantee (being a corporation) has ceased or suspended payment of its debts, become unable to pay its debts (within the meaning of section 178 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance or any similar provisions under the Companies Law) or otherwise become insolvent;

APPENDIX V**STATUTORY AND GENERAL INFORMATION**

- (iii) there is unsatisfied judgment, order or award outstanding against a Grantee or our Company has reason to believe that Grantee is unable to pay or to have no reasonable prospect to being able to pay his/her/its debts;
- (iv) there are circumstances which entitle any person to take any action, appoint any person, commence proceedings or obtain any order of type mentioned in subparagraphs (f)(i), (ii) and (iii) above;
- (v) a bankruptcy order has been made against a Grantee or any director of a Grantee (being a corporation) in any jurisdiction; or
- (vi) a petition for bankruptcy has been presented against a Grantee or any director of a Grantee (being a corporation) in any jurisdiction;
- (g) the date on which a Disposal occurs in breach of the provision described in paragraph 12 above; or
- (h) the date on which a Grantee commits a breach of any terms or conditions attached to the grant of the Option, unless otherwise resolved to the contrary by the Board.

19. Cancellation of Options granted but not yet exercised

Our Board shall have the absolute discretion to cancel any Options granted at any time if a Grantee so agrees provided that where an Option is cancelled and a new Option is proposed to be issued to the same Grantee, the issue of such new Option may only be made with available but unissued Shares in the authorised share capital of our Company, and available ungranted Options (excluding for this purpose all cancelled Options) within the limits referred to in paragraph 5.

20. Period of the Share Option Scheme

Subject to the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years commencing from the date on which the Share Option Scheme was conditionally adopted by a written resolution of our Shareholders in general meeting, after which no further Options will be issued but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any Options granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

Our Board may impose such terms and conditions of the offer of grant either on a case-by-case basis or generally as are not inconsistent with the Share Option Scheme, including the minimum period for such an Option must be held, if applicable.

APPENDIX V

STATUTORY AND GENERAL INFORMATION

21. Alteration to the Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of the Board except those specific provisions relating to matters set out in Rule 23.03 of the GEM Listing Rules (or any other relevant provisions of the GEM Listing Rules from time to time applicable) which cannot be altered to the advantage of Grantees or prospective Grantees except with the prior approval of the Shareholders in general meeting. No such alteration shall operate to affect adversely the terms of issue of any Option granted or agreed to be granted prior to such alterations except with the consent or sanction in writing of such majority of the Grantees as would be required of the Shareholders under the Memorandum and Articles for the time being of our Company for a variation of the rights attached to Shares.

Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature must be approved by our Shareholders in general meeting, except where such alterations take effect automatically under the existing terms of the Share Option Scheme.

Any change to the authority of the Directors or the Share Option Scheme administrators in relation to any alterations to the terms of the Share Option Scheme must be approved by our Shareholders in general meeting.

The amended terms of the Share Option Scheme must continue to comply with the relevant provisions of the GEM Listing Rules as may be amended from time to time.

Subject to this paragraph 21, our Board may at any time alter, amend or modify the terms and conditions of the Share Option Scheme to the extent considered necessary by our Board to implement the terms of the Share Option Scheme.

22. Termination of the Share Option Scheme

Our Company by ordinary resolution in general meeting or our Board may at any time terminate the operation of the Share Option Scheme and in such event, no further Options will be offered but the provisions of the Share Option Scheme shall remain in force in all other respects.

Options complying with the provisions of the GEM Listing Rules which are granted and remain unexpired immediately prior to the termination of the operation of the Share Option Scheme shall continue to be exercisable in accordance with their terms of issue after the termination of the Share Option Scheme.

23. Conditions of the Share Option Scheme

The Share Option Scheme shall take effect subject to the passing of the Shareholders' resolution to adopt the Share Option Scheme and is conditional upon:

- (a) the Stock Exchange granting approval for the [REDACTED] of and permission to deal in any Shares in issue, the Shares to be issued pursuant to the Capitalisation Issue, the [REDACTED] and any Shares which may be issued upon the exercise of the [REDACTED] and any options which may be granted under the Share Option Scheme in respect of up to 10% of the Shares in issue as at the [REDACTED];

APPENDIX V

STATUTORY AND GENERAL INFORMATION

- (b) the obligations of the [REDACTED] under the [REDACTED] becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s)) and not being terminated in accordance with the terms of the [REDACTED] or otherwise; and
- (c) the commencement of dealings in the Shares on GEM.

As at the Latest Practicable Date, no Option had been granted by our Company under the Share Option Scheme. Application has been made to the Stock Exchange for the approval of the Share Option Scheme and for the [REDACTED] of and permission to deal in the Shares to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme.

E. OTHER INFORMATION

1. Tax indemnity and other indemnity

(a) *Tax indemnity*

Pursuant to the Deed of Indemnity, our Controlling Shareholders (the “**Indemnifiers**”) have jointly and severally undertaken to indemnify and at all times keep each member of our Group fully and effectively indemnified against, among other things:

- (i) the amount of any and all taxation paid or required to be paid by any member of our Group resulting from or by reference to any income, profits, gains, transactions, events, matters or things earned, accrued or received, entered into (or deemed to be so earned, accrued or received or entered into) or occurring on or before the [REDACTED], or as a consequence of any event which occurred on or before the [REDACTED], whether alone or in conjunction with any other event, act, omission or circumstance against or attributable to any other person, firm or company, whether or not such taxation is chargeable against or attributable to any other person, firm or company;
- (ii) to the extent of which is applicable, any liability for estate duty which is or hereafter become payable by any member of our Group or any similar laws and regulations of any relevant jurisdiction by reason of the death of any person and by reason of any transfer of any property to any member of our Group at any time on or before the [REDACTED].

(b) *Other indemnity*

Each of the Indemnifiers further unconditionally and irrevocably agrees and undertakes jointly and severally to fully indemnify each member of our Group and at all times keep the same fully indemnified from and against all losses, payments, suits, settlement payment, cost (including legal costs and other professional costs on a full indemnity basis), liability, damages, charges, fees, fines or expenses which any of the members of our Group may incur or suffer, accrue, directly or indirectly, from any act of the members of our Group arising from and/or in connection with, among other things, any of the non-compliances, failures, delay or defect of corporate or regulatory compliance on the part of any or all members of our Group of any provision of, the Companies Ordinance or any other

APPENDIX V

STATUTORY AND GENERAL INFORMATION

applicable laws in the world of any of the members of our Group on or before the [REDACTED] and/or as a result of and/or in relation to all litigations, arbitration, claims (including counter-claims), actions, complaints, demands, judgments and/or legal proceedings by or against any of the members of our Group which was issued, accrued and/or arising from any act of any of the members of our Group at any time on or before the [REDACTED].

(c) *Exceptions to indemnity*

Pursuant to the Deed of Indemnity, the Indemnifiers shall be under no liability in respect of property claims, taxation and/or taxation claims:

- (a) to the extent that full provisions or allowance has been made for such taxation in the audited consolidated accounts of our Group for each of the two years ended 31 December 2016 and 2017 (the “**Accounts**”);
- (b) to the extent of any provision or reserve made for such taxation in the Accounts which is finally established to be an over-provision or an excessive reserve as certified by a firm of accountants acceptable to our Company, then the Indemnifiers’ liability (if any) in respect of taxation hereunder shall be reduced by an amount not exceeding such over-provision or excess reserve;
- (c) to the extent that such taxation arises or is incurred or is increased by an increase in rates of taxation or other penalties as a result of any retrospective change in law or retrospective increase in tax rates coming into force after the date on which the [REDACTED] becomes unconditional;
- (d) for which any member of our Group is liable as a result of any event occurring or income, profits earned, accrued or received or alleged to have been earned, accrued or received or transactions entered into in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after the date on which the [REDACTED] becomes unconditional;
- (e) to the extent that such taxation or liability for such taxation falling on any of the members of our Group in respect of their accounting periods or any accounting period commencing on or after 1 January 2018 and ending on the [REDACTED], where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily effected by, any members of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers, other than any such act, omission or transaction:
 - (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after 1 January 2018;
 - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before 31 December 2017 or pursuant to any statement of intention made in this document; or

APPENDIX V

STATUTORY AND GENERAL INFORMATION

- (f) to the extent that a claim in respect of the same taxation or claim has already been made under the deed of indemnity by either our Company or by any of the members of our Group; or
- (g) to the extent that such taxation or liability is discharged by another person who is not our Company or any of the members of our Group and that our Company or such member of our Group is not required to reimburse such person in respect of the discharge of the taxation or liability.

2. Litigation

As at the Latest Practicable Date to the best of our Directors’ knowledge, there is no current litigation or any pending or threatened litigation or arbitration proceedings against any member of our Group that could have a material adverse effect on our Group’s financial condition or results of operation.

3. The Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Stock Exchange for the [REDACTED] of, and permission to deal in, our Shares in issue and to be issued as mentioned herein and any Shares which may be issued upon the exercise of the [REDACTED] and any options which may be granted under the Share Option Scheme on the Stock Exchange.

The Sole Sponsor declared its independence from our Company pursuant to Rule 6A.07 of the GEM Listing Rules and satisfies the independence criteria applicable to the Sole Sponsor set out in Rule 6A.07 of the GEM Listing Rules.

The total amount of fees payable to the Sole Sponsor by our Group for sponsoring the [REDACTED] is HK\$4 million.

4. Compliance adviser

In accordance with the requirements of the GEM Listing Rules, our Company has appointed Pulsar as our compliance adviser to provide advisory services to our Company to ensure compliance with the GEM Listing Rules for a period commencing on the [REDACTED] and ending on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the second full financial year commencing after the [REDACTED].

5. Preliminary expenses

The estimated preliminary expenses borne by our Company are approximately HK\$23,800 and are payable by our Company.

6. Advisory fees or commissions received

The [REDACTED] will receive an [REDACTED] commission and the Sole Sponsor will in addition receive a financial advisory (sponsorship) and documentation fee as referred to in the paragraph headed “[REDACTED]” in this document.

APPENDIX V

STATUTORY AND GENERAL INFORMATION

7. Promoter

Our Company has no promoter for the purpose of the GEM Listing Rules.

8. Qualifications of experts

The following are the respective qualifications of the experts who have given their opinion or advice which is contained in this document:

Name	Qualification
Pulsar Capital Limited	A licensed corporation under the SFO to engage in Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities as defined under the SFO
Ernst & Young	Certified Public Accountants
Harney Westwood & Riegels	Cayman Islands legal advisers
C S Surveyors Limited	Property valuer and consultant

9. Consents of experts

Each of the parties listed in the paragraph headed “E. Other information — 8. Qualifications of experts” in this appendix has given and has not withdrawn its written consent to the issue of this document with the inclusion of its letter, report, opinions and/or summaries of opinions (as the case may be) and references to its name included herein in the form and context in which they are respectively included. None of the parties has any shareholding, interest in any members of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any members of our Group.

10. Binding effect

This document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provision) Ordinance so far as applicable.

11. Bilingual document

The English language and Chinese language versions of this document are being published separately, in reliance upon the exemption provided under section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). In case of any discrepancies between the English language version and the Chinese language version of this document, the English language version of this document shall prevail.

APPENDIX V

STATUTORY AND GENERAL INFORMATION

12. Share Registrar

The register of members of our Company will be maintained in the Cayman Islands by [REDACTED] and a branch register of members of our Company will be maintained in Hong Kong by [REDACTED]. Save where our Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, our Company’s branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.

13. Material adverse change

Save as disclosed in the paragraph headed “Financial Information — [REDACTED]” in this document, our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2017 (being the date to which the latest audited consolidated financial statements of our Group were made up) and up to the date of this document.

14. Miscellaneous

- (a) Save as disclosed in the paragraph headed “A. Further Information About Our Company and the Subsidiaries” in this appendix, within two years immediately preceding the date of this document, no share or loan capital of our Company or any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash.
- (b) Within two years immediately preceding the date of this document, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries.
- (c) Within two years immediately preceding the date of this document, no commission has been paid or is payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any of our Shares or shares of any of our subsidiaries.
- (d) No share, warrant or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.
- (e) Save as disclosed in the section headed “Financial Information” in this document, there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 24 months immediately preceding the date of this document.
- (f) Neither our Company nor any of our subsidiaries has issued or agreed to issue any founder shares, management shares or deferred shares or any debentures.
- (g) All necessary arrangements have been made enabling our Shares to be admitted into CCASS for clearing and settlement.

APPENDIX V

STATUTORY AND GENERAL INFORMATION

- (h) Our Directors confirm that none of them shall be required to hold any Shares by way of qualification and none of them has any interest in the promotion of our Company.
- (i) None of the equity and debt securities of the members of our Group is listed or dealt with in any stock exchange nor is any listing or permission to deal being or proposed to be sought.
- (j) Save as in connection with the [REDACTED], none of the experts referred to under the paragraph “Consents of experts” of this Appendix:
 - (i) is interested beneficially or non-beneficially in any shares or loan capital in any member of our Group; or
 - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of our Group.
- (k) There is no arrangement under which future dividends are waived or agreed to be waived.
- (l) We have no outstanding convertible debt securities.
- (m) Our Directors have been advised that, under Cayman Islands law, the use of a Chinese name (which has been entered on the register of Companies in the Cayman Islands as evidenced by our Company’s certificate of incorporation) by our Company in conjunction with the English name does not contravene Cayman Islands law.

15. Taxation of holders of Shares

(a) Hong Kong

Dealings in Shares registered on our Company’s Hong Kong branch register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

Profits from dealings in our Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

Our Directors have been advised that no material liability for estate duty under the laws of Hong Kong would likely fall upon any member of our Group.

APPENDIX V

STATUTORY AND GENERAL INFORMATION

(b) Cayman Islands

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(c) Consultation with professional advisers

Intending holders of our Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in our Shares or exercising any rights attaching to them. It is emphasised that none of our Company, our Directors or their parties involved in the [REDACTED] accepts responsibility for any tax effect on, or liabilities of holders of our Shares resulting from their subscription for, purchase, holding or disposal of or dealing in our Shares or exercising any rights attaching to them.

APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this document registered by the Registrar of Companies in Hong Kong were copies of the [REDACTED], the written consents referred to in the paragraph headed “E. Other information — 9. Consents of experts” in Appendix V to this document, and copies of the material contracts referred to in the paragraph headed “B. Further information about the business of our Group — 1. Summary of material contracts” in Appendix V to this document.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Hastings & Co. of 5th Floor, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this document:

- (i) the Memorandum and the Articles of Association;
- (ii) the Companies Law;
- (iii) the Accountants’ Report on the historical financial information of our Group for the financial years ended 31 December 2016 and 2017 from Ernst & Young, the text of which is set out in Appendix I to this document;
- (iv) the audited consolidated financial statements of our Group for the years ended 31 December 2016 and 2017;
- (v) the report from Ernst & Young relating to the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this document;
- (vi) the letter, summary of values and valuation certificates relating to the property interests of our Group prepared by C S Surveyors Limited, the texts of which are set out in Appendix III to this document;
- (vii) the letter prepared by Harney Westwood & Riegels summarising certain aspects of the Companies Law as referred to in Appendix IV to this document;
- (viii) the material contracts referred to in the paragraph headed “B. Further information about the business of our Group — 1. Summary of material contracts” in Appendix V to this document;
- (ix) the rules of the Share Option Scheme;
- (x) the written consents referred to in the paragraph headed “E. Other information — 9. Consents of experts” in Appendix V to this document; and
- (xi) the service agreements referred to in the paragraph headed “C. Further information about directors, senior management and substantial shareholders — 3. Particulars of service agreements and letters of appointment” in Appendix V to this document.