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## RISK FACTORS

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*You should carefully consider all of the information in this prospectus including the risk factors described below. The business, financial condition or results of operations of the Enlarged Group could be materially adversely affected by any of these risk factors. In addition to the risk factors described below, other risks and uncertainties not presently known to the Enlarged Group, or not expressed or implied below, or that the Enlarged Group currently deems immaterial, may also adversely affect the business, operating results and financial condition of the Enlarged Group in a material respect.*

### **RISKS RELATING TO THE ACQUISITION, THE YM SUBSCRIPTION, THE NEW PLACING AND THE PUBLIC OFFER**

#### **Completion is subject to the fulfillment of the Conditions and there is no assurance that all Conditions will be fulfilled**

There are a number of conditions precedent to the Acquisition Completion, the completion of the YM Subscription, the New Placing and the Public Offer that are subject to decisions, consents and approvals from third parties including, but not limited to, the Grand Court approving the Capital Reduction, approval by the Creditors and courts in Hong Kong and the Cayman Islands on the Creditors' Scheme, the Creditors' Scheme becoming effective and other approval and consents from regulatory bodies, the Listing Committee for the New Listing Application and for the listing of and permission to deal in the YM Subscription Shares, the New Placing Shares and the Offer Shares on the Stock Exchange. Details of the Conditions are set out in the section headed "Structure and Conditions of the Public Offer and the Preferential Offering – Conditions of the Public Offer" and the Circular and certain specific risk are set out in the section headed "Specific Risk Associated with the Proposed Restructuring" in this prospectus. There is no assurance that the Acquisition will be completed as contemplated as the fulfillment of the conditions precedent for completion of the Acquisition, the YM Subscription, the New Placing and the Public Offer are beyond control of the parties involved.

#### **The shareholding percentages of the Existing Shareholders in the Company will be substantially diluted immediately following completion of the YM Subscription, the New Placing and the Public Offer**

The Company and the Subscribers have entered into the YM Subscription Agreement, pursuant to which the YM Subscription Shares were subscribed by the Subscribers at HK\$0.52 per YM Subscription Share. The Company has also entered into the New Placing Agreement for the placing of 512,698,586 New Placing Shares. Assuming the Capital Reorganisation becoming effective, the YM Subscription Shares and the New Placing Shares in aggregate represent (i) approximately 88.8% of the issued share capital of the Company as enlarged by the allotment and issue of the YM Subscription Shares and the New Placing Shares; and (ii) approximately 69.9% of the issued share capital of the Company as enlarged by the allotment and issue of the YM Subscription Shares, the Offer Shares and the New Placing Shares. If the Existing Shareholders do not take up their Assured Entitlement under the Public Offer, their shareholding in the Company will be further diluted and the shareholding percentages of the Existing Shareholders in the Company would be substantially diluted. Any value enhancement of the New Shares as a result of the Acquisition may not necessarily offset the dilution effect to the Existing Shareholders.

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### **Goodwill impairment could negatively affect reported results of operations of the Enlarged Group**

Upon Acquisition Completion, the Enlarged Group is expected to record goodwill of approximately HK\$305.7 million, the majority of which is related to the Acquisition. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Testing for impairment requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. There are inherent uncertainties related to these factors and to the Directors' judgment in applying these factors to the assessment of goodwill recoverability. The Enlarged Group could be required to evaluate the recoverability of goodwill prior to the annual assessment if there are any impairment indicators which could potentially be caused. Impairment potentially incurred could substantially affect the Enlarged Group's results of operations in the periods covered. In addition, impairment charges would negatively impact the Enlarged Group's financial ratios and could limit its ability to obtain financing in the future.

### **Intangibles impairment could negatively affect reported results of operations of the Enlarged Group**

Upon Acquisition Completion, the Enlarged Group is expected to record intangible assets of approximately HK\$101.0 million. Pursuant to applicable accounting standards, intangible assets that have a finite life are amortised over its estimated useful life and are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Intangible assets that have an indefinite life are reviewed annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. The impairment may be further affected by the assumptions used in cash flow generated from relevant intangible assets and the estimated useful life of intangible assets, which in turn may have a material adverse impact on the results of operations of the Enlarged Group.

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### **RISKS RELATING TO THE BUSINESS AND OPERATIONS OF YU MING**

As Yu Ming will be the only operating subsidiary of the Enlarged Group immediately upon Resumption, any material disruptions to the business of Yu Ming would adversely affect the business, results of operations and financial condition of the Enlarged Group.

#### **The revenue of Yu Ming's corporate financial advisory service is on a project-by-project basis and non-recurring in nature**

The revenue of Yu Ming was primarily generated from fees negotiated on a project-by-project basis and non-recurring in nature. Depending on the complexity, labour intensity and scope of services to be provided, the amount of fees and other income from mandates varies from project to project. The terms and conditions of each mandate, including its payment schedule, may vary in each case after negotiation with clients. In these circumstances, there is no assurance that Yu Ming will be able to secure future mandates which will generate the same level of fee revenue as previously earned. The revenue and operation results of Yu Ming may therefore be unpredictable and subject to significant fluctuation. There is no assurance that the business or operation results of the Enlarged Group will be sustained.

#### **Yu Ming derived a significant portion of its revenue from its asset management services under which it only has one client**

As at the Latest Practicable Date, SHK was the sole client of Yu Ming's asset management business. SHK has engaged Yu Ming as its investment adviser since 1997 and income derived from the Management Agreement accounted for approximately 29.0%, 28.8% and 29.9% of Yu Ming's total revenue for the years ended 31 December 2016, 31 December 2017 and 31 December 2018 respectively. As disclosed in the sub-section headed "Asset Management" of the section headed "Business of Yu Ming" in this prospectus, the New Management Agreement will expire on 31 December 2021. There is no assurance that the New Management Agreement will be renewed, or if renewed, the terms of Yu Ming's engagement will be the same as the New Management Agreement. If the New Management Agreement is not renewed, or if renewed but on terms less favourable to Yu Ming than the existing terms, the performance and results of operation of the Enlarged Group may be materially and adversely affected.

#### **Delay in or termination of transactions may have an adverse impact on Yu Ming's financial performance**

The payment terms of many of Yu Ming's mandates with clients involved an initial payment and milestone based payments. Payment of fees by clients is usually collected after certain milestones of a project have been achieved and is not usually directly based on the costs incurred by Yu Ming, which mainly consists of staff remuneration. If milestones cannot be met after a substantial amount of work done or costs have been expended, operation results of Yu Ming may be materially and adversely affected.

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If a client decides to withdraw a transaction before completion, the initial payment and the milestone payments may not cover costs already incurred. Payments from clients are due upon presentation of invoices but clients may still seek discounts or delay settling payment, or may not settle them at all. Delay in receiving payments from or non-payment by the clients may adversely affect the Enlarged Group's cash flow position, financial condition and results of operation.

### **Yu Ming derived a significant portion of its revenue under its corporate finance advisory services from some major clients**

For each of the years ended 31 December 2016, 31 December 2017 and 31 December 2018, fees received by Yu Ming from the top five clients under its corporate finance advisory services together accounted for approximately 42.1%, 34.9% and 35.6% respectively of Yu Ming's total revenue and approximately 61.3%, 50.0% and 52.0% respectively of Yu Ming's corporate finance advisory services income for such years. Yu Ming does not have any long term contract with any of these clients, or even if there are retainer engagements they can be terminated by the clients with notice. There is no assurance that Yu Ming could continue the business relationship with these clients, or these clients require services from Yu Ming in future. If Yu Ming is unable to maintain business relationship with these clients, or services these clients require substantially decrease, the performance and results of operation of the Enlarged Group may be materially and adversely affected.

### **Revenue derived from commission based services may be uncertain**

Yu Ming provided corporate finance advisory services under which Yu Ming's fees were commission based, such as placing and underwriting services. The amount of placing or underwriting commission to be recognised by Yu Ming is directly related to the amount of funds the clients intend to raise and whether the fund raising execution is ultimately completed or not. This would be subject to external factors which are beyond control of Yu Ming, such as whether the market for fund raising exercises is active under the prevailing financial market environment, and there is no assurance that Yu Ming will be able to receive any commission under such engagements or the amount to be received.

### **Yu Ming is reliant on key management personnel to conduct business. Failure to retain them or to attract suitable replacements would have an adverse impact on operations**

The success of Yu Ming depends on its ability to retain key management and other personnel and to attract and train suitable replacements. Mr. Warren Lee, a founding director and now the managing director of Yu Ming, played a significant role in Yu Ming's day-to-day operation and the maintenance of business relationships with Yu Ming's clients. If any of the key management personnel of Yu Ming, in particular Mr. Warren Lee, is unwilling or become unable to continue their services, Yu Ming may not be able to replace them adequately, in a proper and timely manner or at all, which would have a material adverse effect on performance of the Enlarged Group and its result of operation.

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Under the licensing requirements of the SFO, Yu Ming is required to maintain at least two Responsible Officers for each type of regulated activities. As at the Latest Practicable Date, Yu Ming had three Responsible Officers for Type 1 (dealing in securities) and Type 6 (advising on corporate finance) and two Responsible Officers for Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO.

In the event any of the Responsible Officers resign, become disqualified or otherwise ineligible to continue their role as Responsible Officer, and at the same time the void created as a result thereof is without immediate and adequate replacement, this may result in a situation where one or more of the four regulated activities of Yu Ming have fewer than two Responsible Officers. In this case, Yu Ming will be in breach of the relevant licensing requirements which could adversely affect its status as a licensed corporation, thus jeopardizing the Enlarged Group's business and financial performance.

### **Potential employee misconduct could damage Yu Ming's reputation, financial position, and business relationships with clients**

Yu Ming is subject to a number of regulations, obligations and standards arising from its business and operates in an industry where its reputation for integrity and retaining the confidence of clients and regulators are of the utmost importance. Misconduct by an employee may include improper use or disclosure of confidential information, engaging in insider dealing or fraudulent acts, or otherwise not complying with applicable laws or regulations or the internal control procedures. During the Track Record Period and up to the Latest Practicable Date, as far as the Proposed Directors are aware, there has not been any disciplinary action by regulators against any Proposed Directors, Responsible Officers, Licensed Representatives or staff of Yu Ming. Nevertheless, there is no assurance that there will not be incidents of employee misconduct in the future. It is not always possible to detect or deter employee misconduct, and internal control and precautions the Enlarged Group takes to detect and prevent such activity may not be effective in all cases. Regulators may investigate or take disciplinary action and clients may also take legal action against Yu Ming in respect of such employee misconduct. Any such action could have a material adverse effect on Yu Ming's reputation, business relationships with clients and therefore the Enlarged Group's financial position and results of operation.

### **Potential exposure to professional liability and litigation**

The principal business of Yu Ming is the provision of professional advisory service to its clients. Any loss incurred to client resulting from the reliance on advice given by Yu Ming may cause material claim and legal action against Yu Ming and/or the Proposed Directors and employees for compensation. As disclosed in the sub-section headed "Litigation and Disciplinary Actions" of the section on "Business of Yu Ming" of this prospectus, (i) Yu Ming was named as defendants in three actions, although the writs have not been served on Yu Ming and lapsed and no legal proceedings have been commenced against Yu Ming under those actions and (ii) High Court Action No. HCA1077/2017 has been commenced against Yu Ming claiming recovery of fees paid to it under two previous engagements in the aggregate sum of HK\$5.3 million together with interest calculated from

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8 May 2017 at the judgment rate applicable from time to time. In respect of HCA1077/2017, if judgment is made in favour of the plaintiff, Yu Ming may also be liable to pay the plaintiff's costs incurred in the action, the amount of which cannot be quantified yet.

Any possible claims or lawsuits against Yu Ming arising from professional negligence and/or employee misconduct could have a material adverse effect on Yu Ming's business, reputation and prospects and the Enlarged Group's results of operations and financial condition.

**Yu Ming is subject to extensive regulatory requirements, including under the SFO, non-compliance with which, or changes in these regulatory requirements, may affect the Enlarged Group's business operations and financial results**

The Hong Kong financial market in which Yu Ming operates is highly regulated. There are changes in rules and regulations from time to time in relation to the regulatory regime for the financial service industry, including, but not limited to, the SFO, the Predecessor Companies Ordinance, the Companies Ordinance, the FRR, the Listing Rules, the GEM Listing Rules and the Takeovers Code. Any such changes in the relevant rules and regulations may result in an increase in Yu Ming's cost of compliance, or might restrict its business activities. If Yu Ming fails to comply with the applicable rules and regulations from time to time, it may face fines or restrictions on its business activities or even suspension or revocation of some or all of its licences for carrying on its business activities.

Furthermore, Yu Ming is required to be licensed with the SFC, as licensed corporations under the SFO. In this respect, Yu Ming has to ensure continuous compliance with all applicable laws, regulations and guidelines, and satisfy the SFC, the Stock Exchange and/or other regulatory authorities that it remains fit and proper to be licensed. If there is any change or tightening of the relevant laws, regulations and guidelines, it may materially and adversely affect Yu Ming's business operations.

Yu Ming may be subject to regulatory on-site reviews, inspection and investigations from time to time. Yu Ming is bound by the secrecy obligations under section 378 of the SFO whereby it is not permitted to disclose any information concerning an ongoing investigation. Unless Yu Ming is specifically named as the party that is being investigated under the SFO investigation, Yu Ming generally would not know whether it, or any of its directors, Responsible Officers, Licensed Representatives or staff is the subject of SFC investigations. If the results of the review, inspections or investigations reveal misconduct, the SFC may take disciplinary actions such as revocation or suspension of licenses, public or private reprimand or imposition of pecuniary penalties against Yu Ming, its Responsible Officers or Licensed Representatives and/or any of staff. Any disciplinary actions taken against or penalties imposed on Yu Ming, its directors, Responsible Officers, Licensed Representatives or relevant staff could have an adverse impact on the Enlarged Group's business operations and financial results.

The above factors could also result in substantial cost, and diversion of resources and management's attention from the day-to-day management of business and in turn affect the Enlarged Group's results of operations and financial condition.

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### **Yu Ming is subject to credit risk**

The credit terms of trade receivables of Yu Ming are applied to its clients according to industry practice together with consideration of the clients' creditability, repayment history and years of establishment. There is however no assurance that clients will settle fee notes in full and in a timely manner. Accordingly, the operation results and cash flow of Yu Ming may be adversely affected.

### **Yu Ming's internal control system may be subject to failures and limitations**

In order to monitor and ensure compliance with the licencing and regulatory requirements under the SFO and other applicable laws or regulations in relation to the operations of Yu Ming including anti-money laundering and counter-terrorist financing activities, an internal control system has been established and maintained by Yu Ming. There is no assurance that the internal control system in place will prove at all times adequate and effective to deal with all the possible risks given the fast changing financial and regulatory environment in which Yu Ming operates. There is no assurance that Yu Ming will always be able to identify transactions with respect to anti-money laundering and counter-terrorist financing activities. Failure to prevent such transactions may result in sanctions on Yu Ming by regulatory authorities. Furthermore, no matter how sophisticated in design, internal control systems may still contain inherent limitations caused by misjudgment or fault of the Directors, senior management and/or staff. Any deficiencies in the internal control system may fail to prevent or address all potential risks, and as a result the Enlarged Group's business, prospects, results of operations and financial condition may be materially and adversely affected.

### **Yu Ming may experience failure in its information technology system**

Yu Ming maintains a computer network for data storage, and internal and external communication, and backs up its data storage regularly. The computer server is located in Yu Ming's premises while data storage service has been engaged to backup such data separately. The computer system used by Yu Ming may be vulnerable to mechanical failures, attack by computer viruses, hackers, or other disruptive actions. Any failure in protecting the computer network system from problems may result in breakdown of the computer network system or leakage of confidential information about Yu Ming or its clients. Yu Ming does not take out any insurance to protect itself from such risks. Accordingly, damage to the computer system and data base may cause an interruption to the business of Yu Ming and any leakage of confidential information may lead to claims against Yu Ming and materially and adversely affect the business, prospects, results of operations and financial condition of the Enlarged Group.

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### **RISKS RELATING TO THE INDUSTRY IN WHICH YU MING OPERATES**

#### **Significant number of existing participants and potential new entrants of the corporate finance industry**

According to information published by the SFC, as at 31 December 2016, 2017 and 2018, there were 288, 315 and 331 licenced corporations which were licensed to participate in Type 6 (advising on corporate finance) regulated activity respectively. New participants may enter the corporate finance industry provided that they have engaged professionals with the appropriate qualifications and skills and have obtained the requisite regulatory licences. Yu Ming competes with other market participants on a number of aspects, including (i) the quality and scope of services provided to clients; (ii) reputation and timeliness and (iii) fee levels. The corporate financial advisory services industry operates in a fast-changing business environment. The Proposed Directors expect that competition in the industry to remain intense.

There is no assurance that Yu Ming will be able to retain existing clients and/or to gain new ones. Competition may result in compromises on fee income, profit margin and market share and staff being poached by competitors.

Conditions in the Hong Kong securities markets may reduce the level of corporate finance activity which would in turn materially and adversely affect the Enlarged Group's business, prospects, results of operations and financial condition.

The number of active corporate finance projects is influenced by the level and activity of the financial markets of Hong Kong. The Hong Kong financial markets are in turn subject to various factors including global and local political, economic and social conditions. Severe fluctuations in market and economic sentiment tend to reduce the level of market activity in a particular period owing to loss of confidence, difficulties in raising finance or unwillingness to make decisions on the part of market participants which in turn can materially and adversely affect the Enlarged Group's business, prospects, results of operations and financial condition.

### **RISKS RELATING TO MACROECONOMIC AND POLITICAL CONDITIONS**

Macro political condition shifts, particularly in Hong Kong and the PRC, may have material and adverse affect on Yu Ming's business, prospects and results of operation and financial condition.

Yu Ming's business and operations are currently based in Hong Kong and the businesses of the majority of its clients are directly affected by the overall performance of the economy of Hong Kong and the PRC. As an open economy, Hong Kong's domestic economy is influenced by the global economy. The PRC economy is also progressing and becoming more open. Certain Hong Kong based investors benefit in the PRC's economic growth through shareholdings in Hong Kong listed companies, including clients of Yu Ming. Equally, PRC based companies and investors are increasingly seeking to carry out transactions through and/or with Hong Kong listed companies. The global, PRC and Hong Kong economies are affected by, among other things, legal and regulatory changes, political



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conditions in global markets, global levels of liquidity and risk aversion, currency and interest rate fluctuations, concerns about natural disasters, terrorism and war, the level and volatility of interest rates and foreign currency exchange rates, concerns over inflation, and changes in investor confidence levels. All of these factors are beyond the control of Yu Ming. If any of the above factors changes unfavourably, the Enlarged Group's business, prospects, results of operations and financial condition may be materially and adversely affected.

### **Any material adverse change in the stability of political conditions in Hong Kong may have material and adverse effect on Yu Ming's business**

As a special administrative region, Hong Kong has been given a high degree of autonomy and enjoys independent judicial power by the PRC, including that of final adjudication under the principle of "one country, two systems" in accordance with the basic policies of the PRC regarding Hong Kong embodied in the Basic Law of Hong Kong. This is an unique advantage for Hong Kong-based businesses such as Yu Ming. During and after the Track Record Period, political movements and protests have occurred which may place this system under strain. Any material adverse change in the stability of political conditions in Hong Kong may jeopardise Yu Ming's business which in turn have material and adverse effect on the Enlarged Group's results of operation and financial condition.

### **RISK ASSOCIATED WITH ACCURACY OF THIRD PARTY DATA**

Certain statistics and data extracted or derived from various governmental or third party sources should not be unduly relied upon.

Certain statistics and industry data included in this prospectus have been extracted or derived from various governmental sources, the websites of the SFC, the Stock Exchange and other third party sources. The Company believes that the sources are appropriate for such statistics and data and has taken reasonable care in the extraction, compilation and reproduction of such statistics and data. The Company has no reason to believe that such statistics and data are false or misleading, or that any fact has been omitted that would render such statistics and data false or misleading. However, the Company has not independently verified such statistics and data, and such party or parties do not make any representation as to the accuracy or completeness of such statistics and data, which may be inconsistent with statistics and data derived from other sources. As such, these statistics and data should not be unduly relied upon by Shareholders. As a result of different market practices, differences between published information, possible flawed collection methods or other problems, the statistics and data shown in this prospectus might not be accurate or complete or might not be comparable to statistics and data produced from other sources. Accordingly, Shareholders should give careful consideration as to how much weight or importance they should attach to or place on such statistics and data.

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### **RISK ASSOCIATED WITH THE COMPANY NOT INCORPORATED IN HONG KONG**

**You may face difficulties in protecting your interests because the Company was incorporated under Cayman Islands laws, and the laws of the Cayman Islands for minority shareholders' protection may be different from those under the laws of Hong Kong or other jurisdictions**

The Company is a Cayman Islands company and its corporate affairs are governed by the Companies Law and other laws of the Cayman Islands. The laws of Cayman Islands relating to the protection of the interest of minority shareholders may differ from those under statutes and judicial precedent in existence in Hong Kong and other jurisdictions. Therefore, remedies available to the minority shareholders of the Company may differ to those they would have under the laws of Hong Kong or other jurisdictions. Please refer to the section headed "Summary of Constitution of the Company and Cayman Islands Company Law" in Appendix IV to this prospectus for more information.