



Fu Shek Financial Holdings Limited 富石金融控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 2263

Share Offer

Sole Sponsor

VINCO 城高
Vinco Capital Limited

Joint Bookrunners and Joint Lead Managers
(in alphabetical order)

 交銀國際
BOCOM International
Securities Limited

 光大新鴻基
EVERBRIGHTSUN HUNG KAI
China Everbright
Securities (HK) Limited

 中投證券(香港)
CHINA INVESTMENT SECURITIES (HK)
China Investment
Securities International
Brokerage Limited

 海通國際
HAITONG
Haitong International
Securities Company Limited

 SUNWAH KINGSWAY
新華滙富
Kingsway Financial Services
Group Limited

 VINCO 城高
Vinco Capital Limited

Co-Managers

 利弗莫尔證券
Livermore Holdings Limited

 華盛證券
Valuable Capital Limited

 Sinomax Securities Ltd.
佳富達證券
Sinomax Securities Limited

 中國通海證券
CHINA TONGHAI SECURITIES
China Tonghai Securities
Limited

IMPORTANT

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



Fu Shek Financial Holdings Limited

富石金融控股有限公司

(incorporated in the Cayman Islands with limited liability)

SHARE OFFER

Number of Offer Shares	: 250,000,000 Shares (subject to the Over-allotment Option)
Number of Public Offer Shares	: 25,000,000 Shares (subject to reallocation)
Number of Placing Shares	: 225,000,000 Shares (subject to reallocation and the Over-allotment Option)
Offer Price	: Not more than HK\$0.60 per Offer Share and not less than HK\$0.50 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	: HK\$0.01 per Share
Stock code	: 2263

Sole Sponsor



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(in alphabetical order)

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HAITONG
Haitong International
Securities Company
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Kingsway Financial
Services Group Limited

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Valuable Capital Limited

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佳富證券
Sinomax Securities Limited

 中國通海證券
CHINA TONGHAI SECURITIES
China Tonghai Securities Limited

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents delivered to the Registrar of Companies and available for inspection" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around Monday, 10 February 2020 or such later time as may be agreed by our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters) and, in any event, not later than 5:00 p.m. on Tuesday, 11 February 2020. The Offer Price will be not more than HK\$0.60 per Offer Share and is currently expected to be not less than HK\$0.50 per Offer Share unless otherwise announced.

Applicants for Offer Shares are required to pay, on application, the maximum Offer Price of HK\$0.60 for each Share together with a brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% subject to refund if the Offer Price as finally determined is lower than HK\$0.60. If, for any reason, the Offer Price is not agreed between our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters) at or before 5:00 p.m. on Tuesday, 11 February 2020, the Share Offer will not proceed and will lapse. In the case of such event, a notice will be published on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at www.hkfsfinance.com.

The Joint Lead Managers (for themselves and on behalf of the Underwriters) may, with the consent of our Company, reduce the indicative Offer Price range and/or the number of Offer Shares stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such a case, an announcement of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be made on our Company's website at www.hkfsfinance.com and the website of the Stock Exchange at www.hkexnews.hk not later than the morning of the day which is the last day for lodging applications under the Public Offer. Further details are set out in the section head "Structure and conditions of the Share Offer".

Prospective investors of the Offer Shares should note that the Joint Lead Managers (for themselves and on behalf of the Underwriters) are entitled to, in their sole and absolute discretion, terminate the obligations under the Underwriting Agreements if certain grounds arise at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (which is expected to be on Wednesday, 19 February 2020). Such grounds are set out in the section headed "Underwriting – Underwriting arrangements – The Public Offer Underwriting Agreement – Grounds for termination" in this prospectus. Should the Joint Lead Managers (for themselves and on behalf of the Underwriters) terminate the obligations of the Underwriters under the Underwriting Agreements in accordance with their terms, the Share Offer will not become unconditional and will lapse immediately.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including but not limited to the risk factors set out in the section headed "Risk factors" in this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law of the United States and may not be offered, sold, pledged or transferred within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and the applicable laws of each jurisdiction where those offers and sales occur.

No information on any website forms part of this prospectus.

31 January 2020

EXPECTED TIMETABLE

If there is any change in the following expected timetable, we will issue an announcement on our website at **www.hkfsfinance.com** and the website of the Stock Exchange at **www.hkexnews.hk**.

2020
Date and time⁽¹⁾

Public Offer commences and **WHITE** and **YELLOW**

Application Forms available from 9:00 a.m. on
Friday, 31 January

Application lists for the Public Offer open⁽²⁾ 11:45 a.m. on
Friday, 7 February

Latest time for lodging **WHITE** and **YELLOW**

Application Forms and for giving **electronic application**
instructions to HKSCC⁽³⁾ 12:00 noon on
Friday, 7 February

Application lists for the Public Offer close⁽²⁾ 12:00 noon on
Friday, 7 February

Expected Price Determination Date⁽⁴⁾ on or around Monday, 10 February

Announcement of the final Offer Price, the level of indication
of interest in the Placing, the level of applications in
the Public Offer and the basis of allocation of
the Public Offer Shares to be published on
our website at **www.hkfsfinance.com**⁽⁵⁾
and the website of the Stock Exchange
at **www.hkexnews.hk** on or before Tuesday, 18 February

Announcement of results of allocations in the Public Offer
(with successful applicants' identification
document numbers, where applicable)
to be made available through a variety of channels
including our website at **www.hkfsfinance.com** and
the website of the Stock Exchange at **www.hkexnews.hk**.
For further details, please see the section headed
"How to apply for Public Offer Shares –
10. Publication of results" in this prospectus from Tuesday, 18 February

Results of allocations in the Public Offer
will be available at **www.unioniporesults.com.hk**
with a "search by ID" function from Tuesday, 18 February

Despatch/collection of Share certificates and/or
deposit of Share certificates into CCASS in respect of
wholly or partially successful applications
pursuant to the Public Offer on or before⁽⁷⁾ Tuesday, 18 February

EXPECTED TIMETABLE

2020
Date and time⁽¹⁾

Despatch/collection of refund cheques in respect of
wholly or partially successful applications
if the final Offer Price is less than the price
payable on applications (if applicable) or
wholly or partially unsuccessful applications
pursuant to the Public Offer^(6 and 7) Tuesday, 18 February

Dealings in Shares on the Main Board of the Stock Exchange
expected to commence at 9:00 a.m. on Wednesday, 19 February

The application for the Public Offer will commence on Friday, 31 January 2020 through Friday, 7 February 2020. Such time period is longer than the normal market practice of three days. The application monies (including brokerage, SFC transaction levy and Stock Exchange trading fee) will be held by the receiving bank on behalf of the Company and the refund monies, if any, will be returned to the applicants without interest on Tuesday, 18 February 2020. Investors should be aware that the dealings in Shares on the Stock Exchange are expected to commence on Wednesday, 19 February 2020.

Notes:

1. All times and dates refer to Hong Kong local time and date. Details of the structure of the Share Offer, including its conditions and grounds for termination are set out in the section headed “Structure and conditions of the Share Offer” in this prospectus.
2. If there is a “black” rainstorm warning signal or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 7 February 2020, the application lists will not open and close on that day. Further information is set out in the paragraph headed “9. Effect of bad weather on the opening of the application lists” under the section headed “How to apply for Public Offer Shares” of this prospectus.
3. Applicants who apply for Public Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the paragraph headed “5. Applying by giving **electronic application instructions** to HKSCC via CCASS” under the section headed “How to apply for Public Offer Shares” of this prospectus.
4. Please note that the Price Determination Date, being the date on which the final Offer Price is to be determined, is expected to be on or around Monday, 10 February 2020 (or such later time as may be agreed by our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters)) and, in any event, no later than 5:00 p.m. on Tuesday, 11 February 2020. If for any reason the Offer Price is not agreed between our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters) at or before 5:00 p.m. on Tuesday, 11 February 2020, the Share Offer will not become unconditional and will lapse.

Notwithstanding that the Offer Price may be fixed at below the maximum indicative Offer Price of HK\$0.60 per Offer Share, applicants who apply for the Offer Shares must pay on application the maximum indicative Offer Price of HK\$0.60 per Offer Share plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% but will be refunded the surplus application monies as provided in the paragraph headed “12. Refund of application monies” under the section headed “How to apply for Public Offer Shares” of this prospectus.

5. None of our website or any of the information contained therein forms part of this prospectus.

EXPECTED TIMETABLE

6. Refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications in the event that the Offer Price as finally determined is less than the initial price per Offer Share payable on application. Refund by cheque(s) will be made out to you, or if you are joint applicants, to the first-named applicant on your Application Form. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant provided by you may be printed on your refund cheque, if any. Such data may also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque, if any. Inaccurate completion of your Hong Kong identity card number/passport number may lead to a delay in encashment of, or may invalidate, your refund cheque. Further information is set out in the section headed “How to apply for Public Offer Shares” in this prospectus.
7. Applicants who apply on **WHITE** Application Forms for 1,000,000 or more Public Offer Shares under the Public Offer and have provided all information required by their Application Forms may collect their (where applicable) refund cheques and (where applicable) share certificates in person from our Hong Kong Branch Share Registrar, Union Registrars Limited at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, 18 February 2020 or any other date as announced by us as the date of despatch of share certificates/refund cheques.

Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing a letter of authorisation from their corporation stamped with the corporation’s chop. Both individuals and authorised representatives of corporations must produce, at the time of collection, identification and (where applicable) authorisation documents acceptable to the Hong Kong Branch Share Registrar.

Applicants who apply on **YELLOW** Application Forms for 1,000,000 or more Public Offer Shares under the Public Offer and have provided all information required by their Application Forms may collect their refund cheques (if any) in person but may not elect to collect their share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants’ stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedure for collection of refund cheques for applicants who apply on **YELLOW** Application Forms is the same as that for **WHITE** Application Form applicants.

Applicants who have applied for less than 1,000,000 Public Offer Shares and any uncollected share certificates (if applicable) and refund cheques (if applicable) will be despatched by ordinary post (at the applicants’ own risk) to the addresses specified in the relevant Application Forms shortly after the expiry of the time for collection on the date of despatch of refund cheque and share certificates as described in the paragraph headed “13. Despatch/Collection of share certificates and refund monies” under the section headed “How to apply for Public Offer Shares” of this prospectus.

For further details on the structure and conditions of the Share Offer, you should refer to the section headed “Structure and conditions of the Share Offer” in this prospectus.

Share certificates for the Offer Shares will only become valid certificates of title to which they relate at 8:00 a.m. (Hong Kong time) on the Listing Date provided that (i) the Share Offer has become unconditional in all respect; and (ii) the right of termination as described in the section headed “Underwriting – Underwriting arrangements – The Public Offer Underwriting Agreement – Grounds for termination” in this prospectus has not been exercised and has lapsed. Investors who trade our Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

If there is any change to the above expected timetable, we will make an appropriate announcement on our website www.hkfsfinance.com and the website of the Stock Exchange at www.hkexnews.hk to inform investors accordingly.

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IMPORTANT NOTICE TO PROSPECTIVE INVESTORS

This prospectus is issued by our Company solely in connection with the Share Offer and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Offer Shares offered by this prospectus pursuant to the Share Offer. This prospectus may not be used for the purpose of and does not constitute an offer to sell or a solicitation of an offer in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering of the Offer Shares in other jurisdiction are subject to restrictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or any exemption therefrom.

*You should rely only on the information contained in this prospectus to make your investment decision. Our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, Co-Managers and the Underwriters have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not contained in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, Co-Managers, the Underwriters, any of our or their affiliates or any of their respective directors, officers, employees, agents or representatives, or any other person or party involved in the Share Offer. The information contained on our website at **www.hkfsfinance.com** does not form part of this prospectus.*

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SUMMARY

This summary is intended to give you an overview of the information contained in this prospectus and should be read in conjunction with the full text of this prospectus. As this is only a summary, it may not contain all the information that may be important to you. This prospectus should be read in its entirety before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the specific risks involved in investing in the Offer Shares are set out in the section headed “Risk factors” of this prospectus. You should read that section carefully before making any decision to invest in the Offer Shares.

OVERVIEW

We are a Hong Kong-based financial services provider founded in July 2001. We are principally engaged in the provision of securities trading services (including brokerage services and margin financing services) and placing and underwriting services. We provide services to our clients through our operating subsidiary, Sinomax Securities, which is licensed with the SFC to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities in Hong Kong. Sinomax Securities holds two Stock Exchange Trading Rights, is a participant of the HKSCC, and has been a Trade-through Exchange Participant since September 2018. In terms of our securities brokerage activities, we were ranked 151 among 625 HKEX Participants based on transaction value (with reference to trading fee and transaction levy charged) on trades executed through the Stock Exchange during the period from 1 January 2018 to 31 December 2018.

We generate revenue principally from (i) the provision of brokerage service pursuant to which we charge our brokerage clients brokerage commission for execution and/or facilitating the trading of securities on the Stock Exchange and overseas markets; (ii) the provision of margin financing services pursuant to which we derive interest income from the provision of margin loans to our margin clients; and (iii) the provision of placing and underwriting services to our clients (comprising listed issuers, listing applicants, bookrunners, lead managers, underwriters and placing agents). We also derived an insignificant amount of revenue from the provision of monthly research reports and investment consultancy services to our clients (in return for prescribed monthly fees) as well as default interest which we charge our brokerage clients who fail to settle trades in a timely manner. We do not charge our clients for investment advice which we provide incidental to our securities trading services.

The following table sets out a breakdown of revenue by business activity during the Track Record Period:

	For the year ended 31 March						For the four months ended 31 July			
	2017		2018		2019		2018		2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000 (unaudited)	%	HK\$'000	%
Commission and brokerage income										
derived from securities dealing in										
– market in Hong Kong	16,634	46.6	30,753	54.2	21,258	32.6	5,683	35.6	6,984	27.4
– markets outside Hong Kong	17	0.1	378	0.7	67	0.1	–	–	17	0.1
Interest income from										
– margin clients	9,891	27.7	10,293	18.1	12,826	19.6	3,196	20.0	5,247	20.6
– cash clients	676	1.9	958	1.7	544	0.8	268	1.7	136	0.5
Placing and underwriting services										
income	7,849	22.0	12,894	22.7	28,826	44.2	6,278	39.4	12,713	49.9
Investment advisory services fee income	–	–	514	0.9	242	0.4	178	1.1	–	–
Handling and other fee income	589	1.7	932	1.7	1,512	2.3	345	2.2	369	1.5
Total	<u>35,656</u>	<u>100</u>	<u>56,722</u>	<u>100</u>	<u>65,275</u>	<u>100</u>	<u>15,948</u>	<u>100</u>	<u>25,466</u>	<u>100</u>

SUMMARY

Our revenue increased from approximately HK\$35.7 million for the year ended 31 March 2017 to approximately HK\$56.7 million for the year ended 31 March 2018, representing an increase of approximately 59.1%, and further increased to approximately HK\$65.3 million for the year ended 31 March 2019, representing a year-over-year growth rate of approximately 15.1%. Our revenue increased by approximately HK\$9.5 million or 59.7% from approximately HK\$15.9 million for the four months ended 31 July 2018 to approximately HK\$25.5 million for the four months ended 31 July 2019. Our net profit increased from approximately HK\$13.6 million for the year ended 31 March 2017 to approximately HK\$33.0 million for the year ended 31 March 2018, representing an increase of approximately 142.3%, and further increased to approximately HK\$37.8 million for the year ended 31 March 2019, representing a year-over-year growth rate of approximately 14.4%. Our net profit increased by approximately HK\$5.4 million or 87.7% from approximately HK\$6.1 million for the four months ended 31 July 2018 to approximately HK\$11.5 million for the four months ended 31 July 2019.

OUR BUSINESS MODEL

(i) Securities trading services

(a) Brokerage services

We provide securities dealing and brokerage services to our clients. We act as an intermediary between buyers and sellers of securities listed on the Main Board and GEM of the Stock Exchange and facilitate our clients' trading of securities listed on overseas stock exchanges in return for brokerage commission income.

Our clients must maintain a trading account (cash or margin) with us before placing any trade order. Trade orders can be placed by clients either (i) through our online trading platform or through our mobile application, both of which are operated by a third-party service provider; (ii) through our staff dealers or designated AEs via recorded telephone lines; or (iii) on-site at our office premises by submitting an order ticket. All trade orders placed by our clients are managed and executed by our AEs or staff dealers, and supervised by our responsible officers. Our staff dealers are entitled to a fixed monthly salary, statutory employee benefits and a portion of the brokerage commission received from clients referred by them; while our AEs are self-employed and are only entitled to a portion of the brokerage commission received from clients referred by them.

As at 31 March 2017, 2018 and 2019 and 31 July 2019, clients of Sinomax Securities maintained a total of 1,679, 1,892, 2,013 and 2,050 client accounts for carrying on securities trading, respectively, of which 374, 414, 389 and 245 were active accounts, respectively representing approximately 22%, 22%, 19% and 12% of the total number of client accounts opened with us, respectively.

In addition to brokerage commission we charge our clients for executing and/or arranging the execution of trades (which ranged between 0.075% to 0.25% of the transaction value of trade orders during the Track Record Period, subject to a minimum charge from HK\$50 to HK\$100 per trade order), we also charge default interest which shall accrue on outstanding amount on a daily basis if our clients fail to settle their securities transactions after T+2.

(b) Margin financing services

We offer margin financing services to our clients to facilitate their purchase of securities on a margin basis, both in respect of subscription to IPOs and secondary offerings. In each case, the relevant underlying securities are pledged as collateral in order to secure clients' repayment obligations. Interest on outstanding loans is charged at a fixed rate ranging from 2% above the prevailing Hong Kong Prime Rate up to 14.4% per annum as at the Latest Practicable Date. As at 31 March 2017, 2018 and 2019 and 31 July 2019, a total of 192, 288, 377 and 387 margin accounts were maintained with us, respectively, of which 96, 157, 183 and 125 were active accounts, respectively. For the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, the average margin ratio is 9.4%, 10.5%, 22.5% and 24.5% respectively. There has been a significant increase in average margin ratio for the year ended 31 March 2019 due to higher quality of collateral posted by clients, which enabled us to lend more money to our clients.

The total balance of margin receivables from our margin clients as at 31 March 2017, 2018 and 2019 and 31 July 2019 were approximately HK\$82.0 million, HK\$86.2 million, HK\$184.9 million and HK\$192.1 million, respectively.

SUMMARY

(ii) Placing and underwriting services

We provide placing and underwriting services by acting as (i) bookrunner, lead manager or underwriter of listing applicants in IPOs; and (ii) placing agent of listed companies in connection with their issuance or sale of securities, in return for placing and/or underwriting commission income. Our commissions for placing and underwriting engagements vary on a case-by-case basis, and are typically charged either (i) based on a pre-determined fixed fee; or (ii) based on a fee calculated as a percentage of the total price of the shares underwritten by us. Over the Track Record Period, we undertook 70 placing and underwriting projects. We also charge investors a brokerage commission when they subscribe for securities of issuers who engage us to place shares to prospective investors as part of our placing and underwriting engagements.

For the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, our aggregate underwriting commitments for IPOs amounted to approximately HK\$176 million, HK\$186 million, HK\$721 million and HK\$163 million, respectively. The value of securities placed by us amounted to approximately HK\$50 million and HK\$830 million for the year ended 31 March 2017 and 2018 respectively while we did not undertake any placing projects for the year ended 31 March 2019 and the four months ended 31 July 2019.

(iii) Investment advisory services

We act as investment advisor to our clients, and (i) provide them with investment advice incidental to our securities trading services, which we provide free of charge; and (ii) investment consultancy services (whereby we may be required to meet with clients to discuss investment-related matters upon request) and issue monthly research reports in return for a fee. Our investment advisory fees are determined on a case-by-case basis after arm's length negotiations with each client.

We generally source new clients and expand our business network through the personal networks of our senior management and our AEs as well as through word-of-mouth referrals from our existing clients, which supported the continuous growth of our client base over the Track Record Period. During the Track Record Period, our clients were mainly (i) referred by our senior management; (ii) referred by our existing clients; or (iii) sourced by our AEs.

For further information regarding our business model, please refer to the section headed "Business – Our business model" in this prospectus.

OUR CLIENTS

Clients of our securities brokerage and margin financing services are mainly retail investors who are residents of Hong Kong or the PRC. Clients of our placing and underwriting services include companies listed on the Stock Exchange, companies seeking to be listed on the Stock Exchange and other SFO licensed entities which act as bookrunners, lead managers, underwriters and/or placing agents in respect of placing and/or underwriting engagements.

For the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, approximately 78%, 77%, 76% and 74% of our clients were Hong Kong residents, and approximately, 20%, 21%, 22% and 24% of our clients were PRC residents, respectively.

For the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, the revenue generated from our top five clients, in aggregate, accounted for approximately 27.6%, 18.3%, 32.0% and 44.2% of our Group's total revenue, respectively. Our largest client for the respective periods accounted for approximately 6.5%, 6.3%, 13.1% and 19.6% of our Group's total revenue in the respective periods. All of our top five clients during the Track Record Period were Independent Third Parties.

For further information of our clients, please refer to the section headed "Business – Our clients" in this prospectus.

OUR SUPPLIERS

We have no major suppliers due to the nature of our principal business activities. Over the Track Record Period, we engaged various service providers to provide services necessary for our business operations, such as software vendor, overseas brokers, internet service providers and the Stock Exchange, all of which were Independent Third Parties.

SUMMARY

COMPETITIVE STRENGTHS

Our Directors believe that the following competitive strengths (details of which are set out in the section headed “Business – Competitive strengths” in this prospectus) contribute to our continued success and potential for growth as a financial services provider:

- our reputation as a reliable and quality financial services provider in Hong Kong with over ten years of operating history;
- established strong relationships with our clients and a stable client base which has enabled us to source new clients through client referrals;
- a management team with experience and networks in the financial industry as well as an experienced and competent team of licensed representatives;
- the complementary nature of our services which allows us to create synergies among our different lines of services and generate diversified and stable sources of revenue; and
- streamlined and efficient organisational structure which facilitates efficient execution and settlement of clients’ trade orders and our ability to maintain a good working relationship with our AEs.

BUSINESS OBJECTIVE AND STRATEGIES

Our business objective is to become one of the leading financial services providers in Hong Kong. To achieve such objective, we intend to adopt the following business strategies (details of which are set out in the section headed “Business – Business strategies” in this prospectus):

- strengthen our placing and underwriting business to capitalise on opportunities arising from the perceived sustainable growth of the equity market in Hong Kong;
- expand our securities margin financing by increasing our financial resources and liquidity position;
- enhance our service offerings by commencing the provision of discretionary account management service to our clients and recruiting qualified research analysts to support our research capabilities;
- develop our China Connect business by applying to the HKEX for registration as a China Connect Exchange Participant; and
- further enhance our IT capabilities, risk management and internal controls, including developing and enhancing our online trading systems.

KEY FINANCIAL AND OPERATIONAL DATA

The following tables set out historical financial information and key operational data of our Group during the Track Record Period. The financial information as at and for the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019 were derived from, and should be read in conjunction with the section headed “Financial information” and the Accountants’ Report in Appendix I to this prospectus.

Highlights of our combined statements of profit or loss

	Year ended 31 March			Four months ended 31 July	
	2017	2018	2019	2018	2019
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
				(unaudited)	
Revenue	35,656	56,722	65,275	15,948	25,466
Profit before taxation	18,004	39,883	45,590	7,748	14,674
Profit and total comprehensive income for the year/period	13,629	33,029	37,781	6,121	11,491

SUMMARY

Our revenue increased by approximately HK\$21.1 million or 59.1% from approximately HK\$35.7 million for the year ended 31 March 2017 to approximately HK\$56.7 million for the year ended 31 March 2018, mainly due to (i) a substantial increase in commission and brokerage income from securities trading services; and (ii) an increase in commission income from placing and underwriting activities. Our revenue further increased by approximately HK\$8.6 million or 15.1% to approximately HK\$65.3 million for the year ended 31 March 2019, mainly due to a significant increase in placing and underwriting services income. Our revenue increased by approximately HK\$9.5 million or 59.7% from approximately HK\$15.9 million for the four months ended 31 July 2018 to approximately HK\$25.5 million for the four months ended 31 July 2019, mainly due to a significant increase in placing and underwriting services income and interest income from our margin clients.

Our net profit increased by approximately HK\$19.4 million or 142.3% from approximately HK\$13.6 million for the year ended 31 March 2017 to approximately HK\$33.0 million for the year ended 31 March 2018, and further increased by approximately HK\$4.8 million or 14.4% to approximately HK\$37.8 million for the year ended 31 March 2019. Our net profit increased by approximately HK\$5.4 million or 87.7% from approximately HK\$6.1 million for the four months ended 31 July 2018 to approximately HK\$11.5 million for the four months ended 31 July 2019.

Highlights of our combined statements of financial position

	As at 31 March			As at 31 July 2019
	2017	2018	2019	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current assets	269,010	338,347	374,235	397,346
Current liabilities	157,099	193,520	190,709	201,781
Net current assets	111,911	144,827	183,526	195,565

Please refer to the section headed “Financial information – Net current assets” in this prospectus for further information.

Highlights of our consolidated statements of cash flow

	Year ended 31 March			Four months ended 31 July	
	2017	2018	2019	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Operating cash flows before movements in working capital	19,734	42,310	46,886	8,352	15,481
Net cash generated from/(used in) operating activities	22,094	43,102	(58,798)	(53,004)	9,472
Net cash used in investing activities	(437)	(105)	–	–	(40)
Net cash (used in)/generated from financing activities	(16,752)	(1,776)	27,798	4,566	(1,683)
Net increase/(decrease) in cash and cash equivalents	4,905	41,221	(31,000)	(48,438)	7,749
Cash and cash equivalents at beginning of year/period	15,101	20,006	61,227	61,227	30,227
Cash and cash equivalents at end of year/period	20,006	61,227	30,227	12,789	37,976

SUMMARY

The net cash generated from operating activities for the year ended 31 March 2018 was approximately HK\$43.1 million and the net cash used in operating activities for the year ended 31 March 2019 was approximately HK\$58.8 million. Such change for the year ended 31 March 2019 was mainly attributable to (i) an increase in accounts receivable, mainly due to an increase in the amount of outstanding margin loans granted to our margin clients as at the reporting date; and (ii) a decrease in accounts payable mainly due to a decrease in deposit balance in our clients' margin accounts and sale of securities which were pending settlement from CCASS from margin client as compared to the corresponding period in 2018.

The net cash used in operating activities for the four months ended 31 July 2018 was approximately HK\$53.0 million and the net cash generated from operating activities for the four months ended 31 July 2019 was approximately HK\$9.5 million. Such change for the four months ended 31 July 2019 was mainly attributable to operating cash generated from profit before taxation and a decrease during bank balances for trust and segregated accounts mainly due to more trades of securities being placed during in the reporting period. Please refer to the section headed "Financial information – Liquidity and financial resources" in this prospectus for further information.

Key financial ratios

	2017	As at 31 March 2018	2019	As at 31 July 2019
Current ratio	1.7 times	1.7 times	2.0 times	2.0 times
Gearing ratio	N/A ⁽¹⁾	N/A ⁽¹⁾	0.2	0.2
	For the year ended 31 March			For the four months ended 31 July 2019
	2017	2018	2019	
Return on total assets	4.9%	9.6%	10.0%	N/A ⁽²⁾
Return on equity	11.6%	22.0%	20.1%	N/A ⁽²⁾
Net profit margin	38.2%	58.2%	57.9%	45.1%

Notes:

(1) The ratio is not applicable as the Group had no debt as at the reporting date.

(2) The ratio is not meaningful given the recorded net profit only represented amount for the four months ended 31 July 2019.

Please refer to the section headed "Financial information – Key financial ratios" in this prospectus for further information.

PRINCIPAL RISK FACTORS

Our business faces risks including those set out in the section headed "Risk factors" in this prospectus. Some of the major risks that we face include:

- revenue from our placing and underwriting business is generated on a project-by-project basis and thus our profitability may be adversely affected if we are unable to secure engagements at levels or on comparable commission rates similar to those during the Track Record Period in the future;
- our business may be affected if we are unable to retain our staff or AEs who have strong relationships with our clients;

SUMMARY

- there is no assurance that the contractual arrangements we have entered with our employees and AEs are sufficient to protect the business interests of our Group;
- any failure in protecting our trading system and/or computer system from external threats or maintaining relationship with our vendor may cause disruptions to our business operation and tarnish our reputation;
- our operations depend on our key management and our business may suffer if we are unable to retain or replace them;
- we may be subject to substantial risks if our clients default on payments or if the value of securities collaterals pledged by them is insufficient to cover outstanding loans due to significant market volatility;
- we may have to bear losses resulting from trading errors;
- we are exposed to business risks arising from our placing and underwriting business in case the securities underwritten by us are undersubscribed or placing exercise fails to complete;
- fluctuations in interest rates may have a significant impact on our interest income; and
- we may be subject to intellectual property infringement claims in connection with the use of the “Sinomax” name or negative publicity arising from third parties’ use of the name.

SHAREHOLDING OF OUR COMPANY

Immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued by our Company pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), 75% of the issued share capital of our Company will be owned by Man Chase, which is owned as to 60% by Mr. Keng, a non-executive Director and the chairman of our Board, and 40% by Ms. Yeung, the mother of Mr. Ng, an executive Director. As such, each of Man Chase, Mr. Keng and Ms. Yeung is regarded as a Controlling Shareholder. None of our Controlling Shareholders or their respective close associates has any interest in a business (apart from our Group’s business) which competes or is likely to compete, directly or indirectly, with our Group’s business, or would require disclosure pursuant to Rule 8.10 of the Listing Rules. Please refer to the section headed “Relationship with our Controlling Shareholders” in this prospectus for further information.

During the Track Record Period, we entered into certain arrangements with our connected persons (where applicable, including their associates) which constituted continuing connected transactions on the part of our Company pursuant to the Listing Rules. Certain transactions have ceased or will cease upon the Listing, while other transactions are expected to continue after the Listing. For details, please refer to the section headed “Connected transactions” of this prospectus.

LEGAL COMPLIANCE AND NON-COMPLIANCE INCIDENTS

Our Directors have confirmed that our Group has obtained all necessary licences and certificates necessary for the carrying on of our business operations, and that such licences and certificates are valid and subsisting, and have not been suspended or revoked.

During the Track Record Period and up to the Latest Practicable Date, we were involved in certain non-compliance incidents, which included the submission of inaccurate financial returns to the SFC and the failure to give written notice of renewals of standing authority to our clients. For further information, please refer to the section headed “Business – Licences and regulatory compliance – Non-compliance and disciplinary actions” in this prospectus. Our Group has taken rectification actions in respect of the relevant non-compliance incidents, and our Directors are satisfied that there are no further material deficiencies in our internal control systems or non-compliance with regulatory requirements.

SUMMARY

During the Track Record Period and up to the Latest Practicable Date, no fines or penalties were imposed on any member of our Group for any act or event of non-compliance. Our Group had not been and was not a party to any material legal, arbitral or administrative proceedings over the Track Record Period and up to the Latest Practicable Date.

USE OF PROCEEDS

We estimate that the net proceeds from the Share Offer (after deducting the professional fees, underwriting commission and other fees paid and payable by us in connection with the Share Offer), assuming an Offer Price of HK\$0.55 per Offer Share, being the mid-point of the indicative Offer Price range between HK\$0.5 and HK\$0.6 per Offer Share, will be approximately HK\$100.6 million (assuming the Over-allotment Option is not exercised). Our Directors presently intend to apply such net proceeds as follows:

- (a) approximately HK\$30.0 million (representing approximately 29.8% of the net proceeds from the Share Offer) will be used for the expansion of our placing and underwriting business;
- (b) approximately HK\$11.3 million (representing approximately 11.2% of the net proceeds from the Share Offer) will be used for providing additional funding to expand our margin book in our margin financing business;
- (c) approximately HK\$17.5 million (representing approximately 17.4% of the net proceeds from the Share Offer) will be used for the establishment and renovation of a new office;
- (d) approximately HK\$14.3 million (representing approximately 14.2% of the net proceeds from the Share Offer) will be used for the expansion of our placing and underwriting team, establishment of a discretionary account management team, hiring of research analysts and other supporting staff;
- (e) approximately HK\$10.0 million (representing approximately 9.9% of the net proceeds from the Share Offer) will be used for the enhancement of IT systems;
- (f) approximately HK\$8.0 million (representing approximately 8.0% of the net proceeds from the Share Offer) will be used for promotion and marketing purposes; and
- (g) the remaining balance of approximately HK\$9.5 million (representing approximately 9.5% of the net proceeds from the Share Offer) will be used for general working capital and other general corporate purposes.

For more details, please refer to the section headed “Future plans and use of proceeds” in this prospectus.

DIVIDENDS AND DIVIDEND POLICY

During the Track Record Period, our Company did not pay or declare any dividend. We have adopted a dividend policy (to take effect from the date of Listing), but such policy does not prescribe any predetermined dividend pay-out ratio. The payment and the amount of any future dividend will be at the discretion of our Board and will depend on, among other things, (i) our Group’s results of operations, financial condition, future prospects, capital commitments, development pipeline, prevailing economic environment, contractual restrictions, capital and other reserve requirements, dividends received from our Company’s subsidiaries and associates; (ii) the provisions governing the declaration and distribution of dividends as contained in our Articles and pursuant to our dividend policy; (iii) compliance with the applicable laws; and (iv) any other conditions or factors which our Board deems relevant and having regard to our Directors’ fiduciary duties. We cannot assure you that we will declare or pay a target amount, or any amount, of dividend in the future. For details of the dividend policy, please refer to the section headed “Financial information – Dividends and dividend policy” in this prospectus.

SUMMARY

LISTING EXPENSES

Our Group expects that its total Listing expenses (including underwriting commission, professional fees and other fees incurred in connection with the Listing), which are non-recurring in nature, will amount to approximately HK\$36.8 million (based on the Offer Price of HK\$0.55 per Offer Share, being the midpoint of our indicative Offer Price range between HK\$0.5 and HK\$0.6 per Offer Share). For the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, we recognised Listing expenses of approximately HK\$96,000, HK\$1.9 million, HK\$1.9 million and HK\$5.1 million, respectively, in the combined statements of profit or loss and other comprehensive income. Our Group expects to recognise approximately HK\$14.9 million in the combined statements of profit or loss and other comprehensive income for the eight months ended 31 March 2020 and to deduct the remaining of approximately HK\$12.9 million from our Group's reserve account. Accordingly, the financial results of our Group for the year ending 31 March 2020 are expected to be adversely affected by the estimated expenses in relation to the Listing. Such Listing expenses are a current estimate for reference only and the final amount to be charged to the profit and loss account of our Group for the year ending 31 March 2020 and the amount to be deducted from our Group's reserve account is subject to change.

SHARE OFFER STATISTICS

The Offer Price per Offer Share is expected to be not more than HK\$0.60 and not less than HK\$0.5.

	Based on the Offer Price of HK\$0.5 per Share	Based on the Offer Price of HK\$0.6 per Share
Market capitalisation of our Company upon Listing ^(Note 1)	HK\$500 million	HK\$600 million
Offer size	HK\$125 million	HK\$150 million
Number of Offer Shares	250,000,000 Shares	250,000,000 Shares
Board lot	10,000 Shares	10,000 Shares
Unaudited pro forma adjusted combined net tangible assets of our Group per Share ^(Note 2)	HK\$0.29	HK\$0.32

Notes:

1. The calculation of market capitalisation of our Company upon Listing is based on 1,000,000,000 Shares expected to be in issue immediately following completion of the Share Offer and the Capitalisation Issue (assuming no exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme).
2. The unaudited pro forma adjusted combined net tangible asset of our Group per Share has been arrived at after making the adjustments referred to in Appendix II to this prospectus and on the basis of 1,000,000,000 Shares expected to be in issue immediately following completion of the Share Offer and the Capitalisation Issue (assuming no exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme).

RECENT DEVELOPMENTS

Our Directors believe that the business of our Group is very much affected by clients' and investors' sentiments, perception, confidence and appetite amidst prevailing market conditions globally, especially Hong Kong (as our clients primarily reside in Hong Kong or the PRC). Therefore, any significant changes on their sentiments, perception, confidence and appetite for trading and investments may have an impact on our financial performance following the Track Record Period. Subsequent to the Track Record Period and up to the Latest Practicable Date, we have continued to focus on providing quality and reliable financial services to our clients in the ordinary course of business. Set out below is the summary of our recent developments since 1 April 2019 and up to the Latest Practicable Date:

SUMMARY

Securities trading business: 53 new clients have opened a client account with us, and our commission generated from our securities trading business for the eight months ended 30 November 2019 increased by approximately 7.9% as compared to the same corresponding period in 2018; and

Placing and underwriting business: we completed 21 placing and underwriting projects in respect of IPOs (including five IPOs in which we acted as co-lead manager) over the period and our commission income for the eight months ended 30 November 2019 increased by approximately 54.1% as compared to our revenue generated over the same period in 2018.

Despite uncertainties brought about by changes in the economic and political environment and market conditions in Hong Kong and abroad (including turmoil brought about by recent protest movements in Hong Kong), our Directors believe that our securities trading business had not been adversely affected. In particular, the business segment recorded a 7.9% increase in amount of commission generated compared to the same period in 2018. While Hong Kong is expected to remain an important capital raising venue for prospective issuers and there continues to be a pipeline of listing applications made to the Stock Exchange, our Directors believes that our placing and underwriting business may potentially be adversely affected by market uncertainties as prospective issuers may re-evaluate their business strategies, financing options and capital needs during such periods.

Further, for compliance with the Guidelines for Securities Margin Financing Activities which take effect from October 2019, we have:

- (i) made amendments to our margin policy, including the setting of more prudent triggers for margin call (which has been amended from LTV ratio of 80% for a client account as a whole to 110% of margin ratio of relevant client's account and/or where the approved credit limit of relevant client has been exceeded);
- (ii) conducted a detailed review of securities collaterals posted by clients with consideration given to:
 - (a) quality of such securities collateral taking into account factors such as, *inter alia*, circumstances of the issuer and price volatility and liquidity of relevant securities. On such basis, the margin ratios of securities collateral have been reduced by 10% to 100% based on the individual circumstances of the relevant issuers (for example, the margin ratio of a privatised company has been revised to 0%); and
 - (b) concentration of holdings of securities collateral of listed issuers. In particular, we have established a margin clients concentration benchmark limit of 20% of total liquid capital; and
- (iii) amended our margin policy to include an assessment of our total margin loans-to-capital multiple benchmark to ensure that it would not be more than five.

Due to the above, we have since October 2019 made margin calls for deposit of additional securities collateral in the aggregate amount of approximately HK\$6.4 million (the deposits of which has been fully made) due to revised margin ratios for securities collateral as well as caused a decrease in shareholdings of our margin clients in a listed issuer (due to the newly established margin clients concentration benchmark). As Sinomax Securities has been well capitalised by its existing shareholders, the requirements in the New Guidelines regarding total margin loans-to-capital multiple benchmark do not currently have any material impact on its ability to extend margin loans to clients.

Save as disclosed above and the impact of the Listing expenses, our Directors confirm that as at the date of this prospectus, there had been no material adverse change in our financial or trading position or prospects since 31 July 2019, being the date of our latest audited financial information, and there had been no event since 31 July 2019 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 prospectus.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings:

“Accountants’ Report”	the accountants’ report of our Group prepared by the Reporting Accountants set out in Appendix I to this prospectus
“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
“Application Form(s)”	WHITE and YELLOW application form(s) or, where the context so requires, any of them, which is used relating to the Public Offer
“Articles” or “Articles of Association”	the articles of association of our Company conditionally adopted on 22 January 2020 to take effect on the Listing Date and as amended, supplemented or otherwise modified from time to time, a summary of which is set out in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Banking Ordinance”	the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Board”	the board of Directors
“Brokerage Services Agreement”	the brokerage services agreement dated 22 January 2020 entered into among Sinomax Securities, Mr. Sy, Mr. Ng, Mr. Keng and Ms. Yeung pursuant to which Sinomax Securities shall provide brokerage services and margin financing services to its counterparties (where applicable, including their associates)
“Business Day(s)”	any day(s) (excluding Saturday(s), Sunday(s) or public holiday(s) in Hong Kong) on which licensed banks in Hong Kong are generally open for normal banking business to the public
“BVI”	the British Virgin Islands

DEFINITIONS

“Capitalisation Issue”	the allotment and issue of 749,990,000 Shares to be made upon the capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in the paragraph headed “A. Further information about our Group – 3. Written resolutions of our sole Shareholder dated 22 January 2020” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individual or a corporation
“CCASS Operational Procedures”	the operational procedures of HKSCC in relation to CCASS containing the practices, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“close associate(s)”	has the same meaning ascribed thereto under the Listing Rules
“Code of Conduct”	the Code of Conduct for Persons Licensed by or Registered with the SFC issued by the SFC, as amended, supplemented and/or otherwise modified from time to time
“Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“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

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“Company” or “our Company”	Fu Shek Financial Holdings Limited (富石金融控股有限公司), a company incorporated in the Cayman Islands on 7 June 2016 as an exempted company with limited liability under the Companies Law and registered in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance
“connected person(s)”	has the same meaning ascribed thereto under the Listing Rules
“connected transaction(s)” or “core connected person(s)”	has the same meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the same meaning as defined in the Listing Rules and, in the context of our Company, means each of Man Chase, Mr. Keng and Ms. Yeung. Details of their shareholdings are set forth in the section headed “Relationship with our Controlling Shareholders” in this prospectus and the paragraph headed “Statutory and general information – C. Further information about our Directors and substantial shareholders” in Appendix IV to this prospectus
“Co-Managers”	collectively (i) Livermore Holdings Limited; (ii) Valuable Capital Limited; (iii) Sinomax Securities Limited; and (iv) China Tonghai Securities Limited, being the co-managers and each an Underwriter in respect of the Share Offer
“CSR”	the Securities and Futures (Client Securities) Rules (Chapter 571H of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Deed of Indemnity”	the deed of indemnity dated 22 January 2020 entered into by our Controlling Shareholders (as indemnifiers) in favour of our Company (for ourselves and as trustee for each of our subsidiaries) relating to, among other matters, the tax liabilities of our Group, details and particulars of which are set out in the paragraph headed “E. Other information – 1. Tax and other indemnities” in Appendix IV to this prospectus

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“Deed of Non-competition”	the deed of non-competition dated 22 January 2020 entered into by the Controlling Shareholders (as covenantors) in favour of our Company (for ourselves and as trustee for each of our subsidiaries), details of which are set out in the paragraph headed “Deed of Non-competition” under the section headed “Relationship with our Controlling Shareholders” in this prospectus
“Director(s)”	the director(s) of our Company
“Dr. Yu”	Dr. Yu Sun Say, an independent non-executive Director
“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
“GEM”	GEM of the Stock Exchange
“General Rules of CCASS”	the terms and conditions regulating the use of CCASS, as may be amended or modified from time to time and where the context so permits, shall include the CCASS Operational Procedures
“Group”, “our Group”, “we”, “our” or “us”	our Company and its subsidiaries or, where the context so required, in respect of the period before our Company became the holding company of its present subsidiaries, such subsidiaries which carried on the business of the present Group at the relevant time. As Sinomax Securities is our principal operating subsidiary, references to “we”, “us” and “our” may, based on the context in which these references are used, be used to describe business and operations of Sinomax Securities where appropriate
“Guidelines for Securities Margin Financing Activities” or “New Guidelines”	the Guidelines for Securities Margin Financing Activities published by the SFC under section 399 of the SFO effective on 4 October 2019
“HK\$” or “Hong Kong dollar(s)”	Hong Kong dollars, the lawful currency of Hong Kong
“HKEX”	Hong Kong Exchanges and Clearing Limited
“HKEX Participant”	person(s) 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 a person(s) who may trade on or through the Stock Exchange

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“HKFRSs”	Hong Kong Financial Reporting Standards, including Hong Kong Accounting Standards and Interpretations promulgated by the Hong Kong Accounting Standards Board issued by the HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Direct Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HKSAR”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Union Registrars Limited, our Hong Kong branch share registrar and transfer office
“Independent Third Party(ies)”	an individual(s) or company(ies) who is/are or which is/are independent of, and not connected with (within the meaning of the Listing Rules) any Directors, chief executive or substantial shareholders of our Company or any of its subsidiaries or any of their respective associates
“Internal Control Guidelines”	the Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the SFC published by the SFC under section 399 of the SFO
“Ipsos”	Ipsos Limited, a market research and consulting expert and an Independent Third Party
“Ipsos Report”	the industry report commissioned by us and prepared by Ipsos in relation to the industry of our Group
“Joint Bookrunners”	collectively (i) BOCOM International Securities Limited; (ii) China Everbright Securities (HK) Limited; (iii) China Investment Securities International Brokerage Limited; (iv) Haitong International Securities Company Limited; (v) Kingsway Financial Services Group Limited; and (vi) Vinco Capital Limited, being the joint bookrunners

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“Joint Lead Managers”	collectively (i) BOCOM International Securities Limited; (ii) China Everbright Securities (HK) Limited; (iii) China Investment Securities International Brokerage Limited; (iv) Haitong International Securities Company Limited; (v) Kingsway Financial Services Group Limited; and (vi) Vinco Capital Limited, being the joint lead managers and each an Underwriter in respect of the Share Offer
“Kingsway”	Kingsway Financial Services Group Limited, a corporation licensed to carry on type 1 (dealing in securities), type 2 (dealing in future contracts), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO, being the one of the Joint Lead Managers and Joint Bookrunners in connection with the Share Offer
“Latest Practicable Date”	22 January 2020, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information in this prospectus
“Listing”	the listing and commencement of dealings of our Shares on the Main Board
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date on which our Shares are listed and from which dealings in our Shares shall first commence on the Stock Exchange, which is expected to be on Wednesday, 19 February 2020
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with GEM of the Stock Exchange. For the avoidance of doubt, the Main Board excludes GEM

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“Man Chase”	Man Chase Holdings Limited (萬順控股有限公司), a company incorporated in the BVI with limited liability on 15 December 2015, which is owned as to 60% by Mr. Keng and 40% by Ms. Yeung, and is one of our Controlling Shareholders interested in 75% of the entire issued share capital of our Company immediately following completion of the Reorganisation, the Share Offer and the Capitalisation Issue
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company, adopted on 22 January 2020 and which shall become effective on the Listing Date, a summary of which is set out in Appendix III of this prospectus, as amended, supplemented or otherwise modified from time to time
“Money Lenders Ordinance” or “MLO”	the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Mr. Keng”	Mr. Keng Stephen Lee (formerly known as Li Ching Chung), our non-executive Director, chairman of our Board and one of our Controlling Shareholders
“Mr. Lam”	Mr. Lam Suen Kit, the executive director of our equity capital markets department and one of the responsible officers of Sinomax Securities
“Mr. Ng”	Mr. Ng Sik Chiu, our executive Director and the son of Ms. Yeung
“Mr. Sy”	Mr. Sy Man Chiu, our executive Director and the chief executive officer of our Group
“Ms. Yeung”	Ms. Yeung Lai Lai, one of our Controlling Shareholders and the mother of Mr. Ng
“Offer Price”	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005% payable thereon) at which the Offer Shares are to be subscribed pursuant to the Share Offer, which will be not more than HK\$0.60 per Offer Share and is expected to be not less than HK\$0.50 per Offer Share. The final price per Offer Share shall be determined on or before the Price Determination Date in the manner set out in the section head “Structure and conditions of the Share Offer” in this prospectus

DEFINITIONS

“Offer Shares”	collectively, the Public Offer Shares and the Placing Shares
“Over-allotment Option”	the option granted by our Company to the Placing Underwriters exercisable by the Joint Lead Managers (for themselves and on behalf of the Placing Underwriters) at their sole and absolute discretion, pursuant to which our Company may be required to allot and issue up to an aggregate of 37,500,000 additional new Shares at the Offer Price representing 15% of the Offer Shares initially available under the Share Offer, at the Offer Price, to cover any over-allocations in the Placing and/or to satisfy the obligation of the Stabilising Manager to return securities borrowed under the Stock Borrowing Agreement, subject to the terms of the Placing Underwriting Agreement
“Placing”	the conditional placing of the Placing Shares at the Offer Price for and on behalf of our Company to professional, institutional and other investors, as further described under the section headed “Structure and conditions of the Share Offer” in this prospectus
“Placing Shares”	225,000,000 newly issued Shares initially offered by our Company for subscription at the Offer Price under the Placing subject to reallocation (together, where relevant, to any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option) as further described in the section headed “Structure and conditions of the Share Offer” in this prospectus
“Placing Underwriter(s)”	the underwriter(s) of the Placing named in the paragraph headed “Placing Underwriters” in the section headed “Underwriting” in this prospectus that are expected to enter into the Placing Underwriting Agreement to underwrite the subscription of the Placing Shares
“Placing Underwriting Agreement”	the conditional underwriting agreement relating to the Placing expected to be entered into on or around the Price Determination Date by, among others, our Company, the Controlling Shareholders, our executive Directors, the Sole Sponsor and the Placing Underwriters, particulars of which are summarised in the section headed “Underwriting” in this prospectus
“PRC” or “China”	the People’s Republic of China which, for the purpose of this prospectus excludes Hong Kong, Macau Special Administrative Region and Taiwan

DEFINITIONS

“Predecessor Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) prior to its repeal and replacement on 3 March 2014 by the Companies Ordinance and the Companies (Winding Up and Miscellaneous Provision) Ordinance
“Price Determination Agreement”	the agreement to be entered into between the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company on or before the Price Determination Date to determine and record the Offer Price
“Price Determination Date”	the date, expected to be on or around Monday, 10 February 2020 or such later date as the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company may agree but in any event, not later than 5:00 p.m. on Tuesday, 11 February 2020, on which the Offer Price will be determined and fixed for the purpose of the Share Offer
“Principal Share Registrar”	Conyers Trust Company (Cayman) Limited, the Cayman Islands share registrar of our Company
“Public Offer”	the offer by our Company of the Public Offer Shares for subscription by members of the public in Hong Kong at the Offer Price (subject to adjustment as described in the section headed “Structure and conditions of the Share Offer” in this prospectus) and on the terms and conditions stated in this prospectus and the Application Forms
“Public Offer Shares”	the 25,000,000 newly issued Shares initially offered by our Company for subscription in the Public Offer representing 10% of the initial number of Offer Shares, subject to reallocation as described under the section headed “Structure and conditions of the Share Offer” in this prospectus
“Public Offer Underwriter(s)”	the underwriter(s) of the Public Offer named in the paragraph headed “Public Offer Underwriters” under the section headed “Underwriting” in this prospectus that is expected to enter into the Public Offer Underwriting Agreement to underwrite the subscription of the Public Offer Shares

DEFINITIONS

“Public Offer Underwriting Agreement”	the conditional underwriting agreement relating to the Public Offer dated 30 January 2020 entered into, among others, our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor and the Public Offer Underwriters, particulars of which are summarised in the section headed “Underwriting” in this prospectus
“reallocation”	the reallocation between the Public Offer Shares and the Placing Shares as described under the section headed “Structure and conditions of the Share Offer” in this prospectus
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganisation”	the corporate reorganisation arrangement undertaken by our Group in preparation for the Listing, details of which are set out in the section headed “History, Reorganisation and group structure” in this prospectus
“Reporting Accountant”	Deloitte Touche Tohmatsu, the auditors and reporting accountants of our Company
“Repurchase Mandate”	a general unconditional mandate given to our Directors to exercise all powers of our Company to repurchase Shares not exceeding 10% of the aggregate number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	The State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“Securities and Futures (Client Money) Rules”	the Securities and Futures (Client Money) Rules (Chapter 571H of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Securities Ordinance”	the Securities Ordinance (Chapter 333 of the Laws of Hong Kong), which was repealed and substituted by the SFO
“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
“Share(s)”	ordinary share(s) with nominal value of HK\$0.01 each in the share capital of our Company

DEFINITIONS

“Shareholder(s)”	holder(s) of the issued Share(s) from time to time
“Share Offer”	collectively, the Public Offer and the Placing
“Share Option Scheme”	the share option scheme conditionally approved and adopted by our Company on 22 January 2020, the principal terms of which are summarised in the paragraph headed “D. Share Option Scheme” in Appendix IV to this prospectus
“Sinomax Securities”	Sinomax Securities Limited (佳富達證券有限公司), a company incorporated in Hong Kong on 6 July 2001 with limited liability, and an indirect wholly-owned subsidiary of our Company upon completion of the Reorganisation
“Smart Domain”	Smart Domain Group Limited (駿置集團有限公司), a company incorporated in the BVI with limited liability on 1 February 2016 and a wholly-owned subsidiary of our Company upon completion of the Reorganisation
“Sole Sponsor” or “Vinc Capital”	Vinc Capital Limited, a wholly-owned subsidiary of Vinc Financial Group Limited (stock code: 8340), a corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the sole sponsor and one of the Joint Lead Managers in connection with the Share Offer
“Stabilising Manager”	Kingsway Financial Services Group Limited, a corporation licensed to carry on type 1 (dealing in securities), type 2 (dealing in future contracts), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO, being the one of the Joint Lead Managers and Joint Bookrunners in connection with the Share Offer
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between the Stabilising Manager and Man Chase on or about the Price Determination Date, pursuant to which the Stabilising Manager may borrow up to 37,500,000 Shares to cover any over-allotment in the Placing
“Stock Exchange” or “SEHK”	The Stock Exchange of Hong Kong Limited
“Stock Exchange Trading Right”	a right to be eligible to trade on or through the Stock Exchange and entered as such a right in the register of trading rights kept by the Stock Exchange

DEFINITIONS

“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules, unless the context otherwise requires
“substantial shareholder(s)”	has the same meaning ascribed thereto under the Listing Rules, unless the context otherwise requires. Details of our Company’s substantial shareholders are set out in the section headed “Substantial shareholders” in this prospectus
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, modified and supplemented from time to time
“Track Record Period”	the financial period comprising the three financial years of our Company ended 31 March 2019 and the four months ended 31 July 2019
“Trade-through Exchange Participant”	participant registered with the Stock Exchange to trade in China Connect shares for their clients through China Connect Exchange Participants
“Underwriters”	collectively, the Public Offer Underwriters and the Placing Underwriters
“Underwriting Agreements”	collectively the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
“U.S.” or “United States”	the United States of America
“U.S. Securities Act”	the United States Securities Act of 1933 (as amended from time to time)
“US\$” and “USD”	United States dollars, the lawful currency of the United States
“ WHITE Application Form(s)”	the application form(s) for use by members of the public who require such Public Offer Shares to be issued in the applicants’ own name(s)
“ YELLOW Application Form(s)”	the application form(s) for use by members of the public who require such Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS
“%”	per cent.

DEFINITIONS

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

Unless otherwise specified, all times refer to Hong Kong time and reference to years in this prospectus are to calendar years.

Unless otherwise specified, all references to any shareholding in our Company in this prospectus assumes no allotment or issue of any Shares which may be issued and allotted pursuant to the exercise of the Over-allotment Option or the exercise of options under the Share Option Scheme.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms, definitions and abbreviations used in this prospectus in connection with our Group and our business. As such, these terms and their meanings may not correspond to standard industry meaning or usage of those terms.

“active account”	a client account which has recorded at least one trading activity (i.e. a purchase or sale of securities) in the previous twelve months
“active client”	a client whose client account(s) recorded at least one trading activity (i.e. a purchase or sale of securities) in the immediate preceding twelve months
“AE”	an account executive, being licensed representative accredited to Sinomax Securities to carry out regulated activities, who is self-employed and only entitled to share the brokerage income from the clients referred by him/her
“Authorised Institution(s)”	an institution authorised under the Banking Ordinance to carry on the business of taking deposits
“Bloomberg Terminal”	Bloomberg Terminal is a computer system provided by Bloomberg L.P. which provides services which allow users to monitor and analyse real-time financial market data and place trades on the electronic trading platform
“BSS”	the Broker Supplied System, developed and/or operated by a HKEX Participant for trading purposes, which includes any server, terminal and other device connected to it
“CAGR”	compounded annual growth rate, the year-on-year growth rate over a specific period of time
“cash account”	an account opened by a client with Sinomax Securities for the purpose of carrying out purchase or sale of securities with outstanding funds or credit in the relevant account
“cash client”	has the meaning of “rolling balance cash client” under the FRR, which means a client who has authorised Sinomax Securities in writing the disposal of his/her securities for settlement of outstanding debts and to set-off trade receivables and trade payables
“China Connect”	collectively, the Shanghai–Hong Kong Stock Connect and the Shenzhen–Hong Kong Stock Connect
“China Connect Exchange Participant”	a HKEX Participant which is registered as a China Connect Exchange Participant by the Stock Exchange

GLOSSARY OF TECHNICAL TERMS

“Chinese wall”	a virtual barrier intended 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
“client account”	a securities trading account (either a cash account or a margin account) opened by a client with Sinomax Securities for the purpose of carrying out securities trading
“credit limit(s)”	the maximum dollar amount of securities that our clients can purchase when they do not have sufficient cash in their client account. Our clients are required to settle their trade executed within the T+2 period
“financial services”	together, brokerage services and margin and IPO financing services
“HIBOR”	Hong Kong Interbank Offered Rate
“Hong Kong Prime Rate”	the best lending rate for Hong Kong dollars offered by The Hongkong and Shanghai Banking Corporation Limited from time to time
“House Account(s)”	securities trading account(s) of our Group whose holders are walk-in clients or clients introduced by our management without the direct involvement or referral of our staff dealers or AEs
“HSI”	Hang Seng Index, a free float-adjusted market capitalisation-weighted stock market index in Hong Kong used to record and monitor daily changes of 50 constituent stocks of the Hong Kong stock market and is the main indicator of the overall market performance in Hong Kong
“inactive account”	a client account which has not recorded any trading activity (i.e. a purchase or sale of securities) in the immediate preceding twelve months
“inactive client”	a client whose client account(s) has not recorded any trading activity (i.e. a purchase or sale of securities) in the immediate preceding twelve months
“internet”	the global system of interconnected computer networks that use protocol to link billions of electronic devices worldwide

GLOSSARY OF TECHNICAL TERMS

“IPO”	initial public offering, a public offering in which shares of a company are sold to professional, institutional, retail and other investors for the first time which is underwritten by one or more investment banks or underwriters who also arrange for the shares to be listed on a stock exchange
“IT”	information technology, namely the application of computers and computer networks to store, study, retrieve, transmit, and manipulate data or information for a business or enterprise
“JFIU”	Joint Financial Intelligence Unit, a unit jointly run by members of the Hong Kong Police Force and the Hong Kong Customs & Excise Department responsible for managing the suspicious transaction reporting regime in Hong Kong, including to receive, analyse suspicious transaction reports and disseminate them to appropriate law enforcement agencies in or outside Hong Kong or financial intelligence units worldwide
“KYC”	know your client, being what businesses do in order to verify the identity of clients before or during the time they start doing business with them
“licensed corporation”	a corporation which is granted a licence under section 116 or 117 of the SFO to carry on one or more than one regulated activity
“licensed representative”	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 activities for a licensed corporation to which he/she is accredited
“LTV ratio”	loan to value ratio, the ratio of the outstanding amount of the loan to the value of the security provided
“margin account”	an account opened by a client with Sinomax Securities for the purpose of carrying on margin trading
“margin call”	a broker’s demand which requires a client to top up its margin account when the marginable value of the collateral in the account falls short of the a minimum equity balance required to be deposited by that client
“margin client”	a client to whom the licensed corporation provides securities margin financing

GLOSSARY OF TECHNICAL TERMS

“margin financing”	the provision of funds by a securities brokerage firm (licensed to provide margin loans as an intermediary) to clients for the purpose of their margin trading, whereby securities purchased by clients would form the collateral to secure the margin loan granted to clients
“margin limit”	the maximum amount of the margin facility that may be granted to a client as determined by a provider of margin financing with reference to the amount of collateral posted by the client and the applicable margin ratio
“margin ratio”	the percentage of the value of such collateral up to which a client of an intermediary is generally permitted to borrow from the intermediary against that particular description of securities collateral
“margin trading”	the use of funds borrowed from a securities brokerage firm, for the purpose of carrying out trading of securities on a leveraged basis, whereby the relevant securities purchased form the collateral to secure the repayment of the loan granted by the securities brokerage firm
“marginable value”	the market value of the collateral multiplied by the prescribed margin ratio of respective securities, which will be notified to clients from time to time
“OTC”	over-the-counter, referring to the process of how securities are traded for companies that are not listed on a formal stock exchange but through broker-dealer network and/or market makers
“prime rate”	the rate of interest that banks charge their creditworthy clients for borrowing money
“professional investor(s)”	corporate(s) or individual(s) as ascribed in part I of Schedule I of SFO
“Referred Account(s)”	client account(s) of our Group where the relevant client is referred to our Group by our AEs or staff dealers
“regulated activity(ies)”	any of the regulated activities specified in Part I of Schedule 5 of the SFO, and a reference to a type of regulated activity by number shall be construed as a reference to the type of regulated activity of that number as specified in that Part

GLOSSARY OF TECHNICAL TERMS

“responsible officer”	a licensed representative who is approved by the SFC as a responsible officer under section 126 of the SFO to supervise one or more regulated activities of the licensed corporation to which he/she is accredited
“SMS”	Short Message Service, a system for sending short text messages from one mobile phone to another mobile phone
“staff dealer”	an in-house account executive, being a licensed representative accredited to a licensed corporation to carry out one or more than one regulated activity to which he/she is accredited, who is an employee of the licensed corporation
“T+2”	two trading days from the relevant transaction day

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements are not historical facts, but relate to our intentions, beliefs, expectations or predictions for future event and conditions which may not occur. These forward-looking statements include, without limitation, statements relating to:

- the business strategies and plans of operations;
- our expansion plans and use of capital expenditures;
- the amount and nature of, and potential for, future development of our Group's business;
- our operations and business prospects;
- our dividend policy;
- our projects under planning;
- our regulatory environment of the relevant industry in general;
- the future development trends and conditions in the relevant industry and markets in which we intend to expand; and
- other factors referenced in this prospectus, including, without limitation, under the sections entitled "Risk factors", "Industry overview", "Business", and "Financial information".

The words "anticipate", "believe", "could", "expect", "intend", "may", "plan", "project", "seek", "will", "would" and similar expressions, as they relate to our Group, are intended to identify a number of these forward-looking statements.

Our Directors confirm that these forward-looking statements are made after due and careful consideration.

We believe that the sources of information and assumptions contained in such forward-looking statements are appropriate sources for such statements and have taken reasonable care in extracting and reproducing such information and assumptions. We have no reason to believe that information and assumptions contained in such forward-looking statements are inaccurate or misleading or that any fact has been omitted that would render such forward-looking statements inaccurate or misleading in any material respect.

These forward-looking statements are based on current plans and estimates, and speak only as at the date they are made. They reflect our Directors' current views with respect to future events are not a guarantee of future performance and are subject to known and unknown risks, uncertainties and assumptions, including the risk factors described in this prospectus, some of which are beyond our control, which may cause our actual results, performance and/or achievements, to be materially different from any future results,

FORWARD-LOOKING STATEMENTS

performance or achievements expressed and/or implied by the forward-looking statements. One or more of these risks or uncertainties may materialise, or one or more underlying assumptions may prove to be incorrect.

The information and assumptions contained in the forward-looking statements have not been independently verified by us, the Controlling Shareholders, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Managers, the Underwriters or any other party involved in the Share Offer or their respective directors, officers, employees, advisers or agents and no representation is given as to the accuracy or completeness of such information or assumptions on which the forward-looking statements are made. Additional factors that could cause actual performance or achievements of our Group to differ materially including, but are not limited to those discussed under the section headed “Risk factors” and elsewhere in this prospectus.

Subject to the requirements of the Listing Rules, our Company does not intend to publicly update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. We caution you that a number of important factors could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statements.

As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way our Company expects, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

Prospective investors should consider carefully all the information presented in this prospectus and, in particular, should consider the following risks and specific considerations in connection with an investment in our Company before making any investment decision in relation to the Offer Shares. In the event that any of the possible scenarios described in this section occurs, our business, financial conditions, results of operations and prospects could be materially and adversely affected. Additional risks and uncertainties not currently known to us, or not expressed or implied below, or that we now consider immaterial may also harm us and affect our investment value. The trading prices of our Shares could decline at any moment considerably due to the occurrence of any of such risks uncertainties, and prospective investors may lose part or all of their investments.

RISKS RELATING TO BUSINESS AND OPERATIONS OF OUR GROUP

Revenue from our placing and underwriting business are generated on a project-by-project basis and thus our profitability may be adversely affected if we are unable to secure engagements at levels or on comparable commission rates similar to those during the Track Record Period in the future

The revenue generated from our provision of placing and underwriting services for the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019 amounted to approximately HK\$7.8 million, HK\$12.9 million, HK\$28.8 million and HK\$12.7 million respectively, representing approximately 22.0%, 22.7%, 44.2% and 49.9% of our total revenue, respectively.

We are engaged to provide placing and underwriting services on a project-by-project basis, and our financial performance in this business segment may be affected by, among other things, demand for our services, our capacity to undertake new projects, the number and size of IPOs and secondary offerings and issuance in the debt and equity capital markets in Hong Kong as well as other external factors which may be outside our control. In particular, demand for placing and underwriting services may be materially affected by prevailing market conditions, as prospective listing applicants and listed issuers may determine to delay, terminate, scale-back or relocate their fund raising plans and/or activities in the event investment sentiment and appetite are stemmed by adverse, unfavorable or uncertain market conditions. Our financial results may be materially and adversely affected if we are unable to secure new placing or underwriting engagements in the future at levels similar to those during the Track Record Period.

Further, the terms of our placing and underwriting engagements are determined between each of our clients and us on a case-by-case basis after arm's length negotiations based on the type of services we provide, nature of transaction, scope of our duties, length of time we expect to spend, complexity of the transactions and our expected workload. As such, the amount of revenue we generate from different engagements may vary on a project-by-project basis and we cannot assure you that we can secure future engagements with fee rates comparable with engagements during the Track Record Period in the future. When we are unable to secure such engagements or on comparable commission rates, our financial results may be materially and adversely affected.

RISK FACTORS

Our business may be affected if we are unable to retain our staff or AEs who have strong relationships with our clients

We materially rely on our staff to provide reliable and quality financial services to our clients, and believe that our experienced staff and AEs have developed strong relationships with our clients through their ability to provide personalised services through understanding clients' needs. In addition to maintaining relationships with existing clients, we also rely on our staff to generate client referrals.

There is however no guarantee that our staff will or are willing to continue to serve our Group, in particular given that our AEs do not have employment contracts with our Group. Where our staff or AEs, determine to cease their engagements with our Group, or enter into negotiations with us for a material variation of their existing terms of engagement, our operating performance and financial results may be materially and adversely affected.

There is no assurance that the contractual arrangements we have entered with our employees and AEs are sufficient to protect the business interests of our Group

There is no assurance that the contractual arrangements and restrictive covenants (such as non-competition, exclusivity and confidentiality undertakings) we have entered with our employees and AEs will be sufficient to protect the business interests of our Group. If any employee or AE upon his departure leaks proprietary information, trade secrets or know-how of our Group, or successfully solicits clients, employees or AEs from our Group, our business and results of operation may be materially and adversely affected. For example, any leakage of client's information and contacts to our competitors may adversely affect our Group's competitiveness in acting as placing agent or underwriter in our placing and underwriting business. We may need to resort to litigation to enforce the restrictive covenants and undertakings, but there is no guarantee that the courts will rule in favour of our Group and the outcome may be unpredictable. Any litigation may also require significant expenditure and management efforts, and an unfavorable outcome may materially harm our business prospects and reputation.

Any failure in protecting our trading system and/or computer system from external threats or maintaining relationship with our vendor may cause disruptions to our business operation and tarnish our reputation

Our Group relies heavily on the capability and reliability of the BSS developed and operated by an IT vendor to execute our clients' instructions accurately and promptly, and to process a large number of transactions simultaneously during peak periods. The BSS system may be vulnerable to a number of disruptions such as computer viruses and hacking and such disruptions may cause data corruption and interruptions, delay or cessation in executing clients' trading instructions, or unauthorised access to our clients' personal information. Any hacking into our system may also jeopardise the security of confidential information (such as client's data or trading records) stored in our computer systems. In the event of a system failure of our BSS system, all clients' instructions will have to be transacted through a standalone system managed by our staff dealer. This would likely lead to a delay or failure in the execution of our clients' instructions as BSS system can accommodate multiple users while the back-up terminal can only be accessed by one user at a time. The occurrence of any of the above situations may have material adverse effects on our Group's business, results of operations and financial position on our business operation.

RISK FACTORS

Our business operations also rely heavily on our computer systems. Accordingly, the safety and stability of our computer system including our email system, storage system and trading system are of utmost importance to us. While we have adopted various means to safeguard the integrity of our computer systems, we cannot assure you that our computer system is fully protected from human error or external threats (such as computer viruses or malicious programs, hackers, power outages, fire, sabotage, hardware or software malfunctions or defects, intentional acts of vandalism, unauthorised access, client misuse, lack of proper maintenance or other disruptive actions), which may cause disruption (including data loss or corruption, interruption to our data storage system, delay or cessation in the services provided through our securities dealing and brokerage system and our online trading platform), or that our business contingency plan can fully eliminate our loss arising from such disruptions.

Apart from the above, there is no guarantee that we are able to maintain our existing relationship with the IT vendor of our trading system, computer system or other IT systems. In the event that any vendor is unable or unwilling to continue to provide existing services to our Group, our Group may not be able to replace them with service provider of equivalent expertise in a timely manner and thus resulting in disruption to our business operations.

The occurrence of any disruption to the trading system and computer system may render us unable to meet client requirements in a timely and efficient manner, and/or lead to unauthorised disclosure of personal information or any other unexpected associated losses and damages. As a result, our reputation may be tarnished and we may also face complaints or legal proceedings being brought against our Group (which can be costly and time-consuming to defend and which may significantly divert the efforts and resources of our management personnel away from our usual business operations) and may potentially result in us having to pay damages. This could materially and adversely affect our financial condition, prospects and results of operations.

Our operations depend on our key management and our business may suffer if we are unable to retain or replace them

Our performance and the implementation of our business plans and strategies depend significantly on our key management personnel including Mr. Sy, Mr. Lam and Mr. Ng. Please refer to the section headed “Directors and senior management” in this prospectus for details of the responsibilities of our current executive Directors and senior management. As at the Latest Practicable Date, our placing and underwriting business has been operated under the supervision of Mr. Ng and Mr. Lam, who possesses extensive experience and knowledge and has established relationships with investment banks and financial institutions. Our Group relied on Mr. Lam in identifying and pitching to potential clients for placing and underwriting projects during the Track Record Period. If our executive Directors, senior management or other key management personnel are unable or unwilling to continue their services in our Group, our Group may not be able to replace them with persons of equivalent expertise and experience within a reasonable period of time, or at all.

RISK FACTORS

Our continued success depends, to a large extent, on our ability to retain our senior management team. Given that the competition to recruit key personnel is intense, we may not be able to attract or retain these key personnel for our business in the future. Should our key personnel cease to be involved in our management in the future and we fail to find suitable replacements, our operations, growth prospects and profitability may be materially and adversely affected. Additionally, we may need to incur additional costs in recruiting, training and retaining such replacements.

In addition, we benefit from the extensive personal business networks of our management and client referrals from our staff. In the event of departure of any member business of our management, our business and financial performance may be adversely affected.

We may be subject to substantial risks if our clients default on payments or if the value of securities collaterals pledged by them is insufficient to cover the outstanding loans due to significant market volatility

(i) Brokerage services

Our clients are required to settle their securities transactions executed through us within a T+2 period. If our clients do not have sufficient cash in their cash accounts with us to make settlement within the T+2 period, our Group is required to settle the same with CCASS on behalf of the clients using our own resources. Therefore, our Group needs to maintain sufficient resources for the abovementioned settlements and is exposed to potential default in payment by our clients, in which event, our liquidity position may be adversely affected.

There is no guarantee that our risk management measures could effectively mitigate relevant default risks arising from unexpected events or circumstances. There is no assurance that our clients will continue to meet their obligations to settle their securities transaction on time, or at all, or that they will not default on their obligations to us as a result of bankruptcy, lack of liquidity or other reasons. In the event that our clients fail to meet their payment obligations, our financial conditions and results of operations may be materially and adversely affected.

(ii) Margin financing services

We provide margin financing services to our clients whereby repayment obligations in respect of margin loans granted to them are secured by securities in the clients margin accounts which are posted as collateral. Interest income from securities margin financing services accounted for approximately 27.7%, 18.1%, 19.6% and 20.6% of our revenue for the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, respectively. As at 31 March 2017, 2018 and 2019 and 31 July 2019, our Group's outstanding margin loan balance amounted to approximately HK\$89.5 million, HK\$86.4 million, HK\$185.7 million and HK\$192.2 million, respectively.

RISK FACTORS

Margin loan provided to a client is required to be maintained within the margin value of the client's pledged securities (typically referred to as margin ratio). In the event that a client is unable to meet a margin call, we are entitled to liquidate and dispose of the pledged securities on his behalf and use the proceeds thereof towards the repayment of the outstanding margin loan balance. However, there is a risk that the amount recovered from such liquidation or disposal of the pledged securities may fall short of the outstanding margin loan balance. This may be exacerbated in the event of severe adverse price movements in the relevant securities due to unpredictable factors such as fluctuation in changes in global economic and political situations. We may suffer substantial losses if shortfalls cannot be recovered from our clients and this may have a material adverse effect on our financial conditions and results of operations.

We may have to bear losses resulting from trading errors

During the course of providing our brokerage services, our clients can place their orders through our staff-dealers or AEs, which may involve verbal interaction and manual input. There is no guarantee that our staff dealers or AEs will not inadvertently make trade errors, such as making mistakes when inputting client's instructions (including stock codes or number of shares) or processing incorrect buy/sell orders. Upon discovery of any trading error, we have to take immediate actions to rectify the trading error and the relevant client may be dissatisfied and refuse to settle the relevant trade, in which event, we may suffer losses from such trading error. This may lead us to suffer from material financial losses even if the errors are detected.

During the Track Record Period and up to the Latest Practicable Date, we had recorded only four incidents of trade errors. After taking remedial actions to correct the trading errors, we recognised an insignificant net loss of approximately HK\$4,341.85. Our AEs are generally held liable for any losses that resulted from trading errors that they make pursuant to the terms of their agency agreement, any occurrence of trade error may materially and adversely affect our reputation, business, financial condition and results of operations. During the Track Record Period and up to the Latest Practicable Date, we were not subject to any regulatory fines or penalties as a result of trade errors.

We are exposed to business risks arising from our placing and underwriting business in case the securities underwritten by us are undersubscribed or placing exercise fails to complete

During the Track Record Period, we participated in 66 underwriting exercises where we acted as lead manager, bookrunner and underwriter for IPOs of listing applicants. For the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, our aggregate underwriting commitments for IPOs amounted to approximately HK\$176 million, HK\$186 million, HK\$721 million and HK\$163 million, respectively, and the value of securities placed amounted to approximately HK\$50 million, HK\$830 million, nil and nil, respectively.

RISK FACTORS

If the securities underwritten by us are undersubscribed as a result of volatile or unfavourable market conditions or otherwise, our Group may be required to purchase the undersubscribed portion on our own account up to our maximum underwriting commitment, in which case our liquidity may be materially and adversely affected, and our financial position could be adversely affected if the underwritten securities so taken up by our Group become illiquid and/or their market value drops.

During the Track Record Period, we participated as placing agent on best effort basis in four transactions relating to the issuance of new shares by listed issuers. While we are typically engaged in fund-raising exercises of our clients to place securities to investors on a best effort basis, if the securities are undersubscribed (due to deterioration or volatility in market conditions or otherwise), the entire fund-raising exercise may not complete or may be cancelled. As a result, our Group's commission income from such fund-raising exercise may be reduced or we may be entitled to no commission at all.

Fluctuations in interest rates may have a significant impact on our interest income

We provide brokerage services and margin financing services to our clients. During the Track Record Period, we received (i) interest income from cash clients who default in settlement of trades executed through us, which amounted to approximately HK\$676,000, HK\$958,000, HK\$544,000 and HK\$136,000 for the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, respectively; and (ii) interest income from margin clients from our provision of margin loans as part of our margin financing services, which amounted to approximately HK\$9.9 million, HK\$10.3 million, HK\$12.8 million and HK\$5.2 million for the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, respectively. During the Track Record Period, we charged interest payment from cash clients and margin clients at a rate generally tied to the Hong Kong Prime Rate. The Hong Kong Prime Rate may fluctuate from time to time and is beyond our control. If there is any significant change to the prevailing market interest rate, our interest income may be significantly affected.

We may be subject to intellectual property infringement claims in connection with the use of the “Sinomax” name or negative publicity arising from third parties’ use of the name

We are still in the process of registering “Sinomax” as a trademark with the Trade Marks Registry of the Intellectual Property Department of Hong Kong but there is no assurance that such registration will be successful or that our intellectual property is adequately protected in the interim period.

Since we have never registered “Sinomax” as one of our trademarks, our use of the name may be challenged and may subject us to litigation, arbitration or other proceedings which may be time-consuming and expensive to resolve, and may divert our management's time and attention regardless of outcome. A successful infringement claim against our Group could, among other things, result in our Group paying substantial damages and being required to cease using the “Sinomax” name if proven to be in breach of a third party's intellectual property rights. Any intellectual property claim or litigation, regardless of whether our Group ultimately wins or loses, could damage our Group's reputation and have a material adverse effect on our Group's business, operation results or financial condition.

RISK FACTORS

We are subject to reputation risks arising from entities unrelated to us, using “Sinomax” as their corporate or trade name. Our reputation and brand image may be materially and adversely affected if these entities damage the “Sinomax” brand name, imitates our brand or there exists any negative publicity associated with any of these entities.

Our business and prospects may be materially and adversely affected if our risk management and internal control systems are ineffective or inadequate

We have established internal control systems for our business. For more details, please refer to the paragraph headed “Risk management and internal control procedures” under the section headed “Business” in this prospectus. Any deficiencies in our internal control systems could (i) adversely affect our ability to timely and accurately record, process, summarise and report financial or other data; and (ii) adversely affect our operational efficiency and increase the potential likelihood of making financial reporting errors and/or lead to non-compliance with rules and regulations. There is no assurance that our internal control policies in place could or would be properly implemented, or be strictly adhered to, or are adequate or effective under the continuously changing business environment in which we operate.

We have established risk management policies and rely on our staff and AEs’ adherence to these policies to identify, monitor and control a variety of risks relating to, without limitation, human errors, client defaults, market movements, fraud and money laundering. Our risk management procedures were established based on a review of risks that arises in our internal control environment and are designed to test those controls on both regular and ad hoc basis. These methods may not adequately prevent losses, particularly under extreme market movements, which may be significantly greater than we anticipate and greater than historical changes in market prices. Our risk management policies may not protect us against all risks or may protect us to an extent less than anticipated, in which event our business, financial condition and results of operations may be materially adversely affected.

We may fail to detect illicit or improper activities, including money laundering, on a timely basis

We are required to comply with applicable anti-money laundering laws, regulations and guidelines in Hong Kong (for example, the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance and the Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Corporations) issued by the SFC). These laws and regulations require our Group to establish internal control policies and procedures to monitor, report and curtail money laundering and terrorist financing activities. Such policies and procedures require us to, among other things, carry out customer due diligence, maintain a good system of record-keeping, and report suspicious transactions to the relevant regulatory authorities. While these policies have been adopted and procedures (aimed at detecting and preventing our business platforms from facilitating money laundering activities and terrorist acts) are in place, in light of the complexity of money-laundering activities and other illegal or improper activities, such policies and procedures may not completely eliminate the possibility of third parties using our business platform to engage in money laundering and/or other illegal or improper activities.

RISK FACTORS

To the extent that our policies and procedures currently in place fail to detect and prevent money-laundering activities, terrorist financing and other illegal or improper activities by our Directors, employees, AEs, agents, clients or other third parties and/or if we fail to fully comply with the applicable laws and regulations, the relevant government authorities may initiate investigation against our Group, and may impose fines and/or other penalties on us, any of which may significantly and adversely affect our reputation, business operations and financial results.

Failure to detect misconduct of our personnel, agents or third parties may impair our reputation

While we have put in place internal control policies and procedures which are designed to prevent and mitigate the risks of fraud, illegal act or misconduct of our Directors, staff, AEs, agents and/or third parties, we cannot assure you that we would be able to effectively prevent the occurrence of misconduct, which may involve, among others, the entering into of unauthorised transactions or the conducting of illicit activities resulting in unknown and/or unmanageable risks or losses, improperly using or disclosing confidential or inside information, recommending transactions that are not suitable for clients or the engaging in fraudulent acts or otherwise not complying with applicable laws or our internal control procedures. There is no assurance that there will not be any misconduct by our Directors, staff, AEs, agents and/or third parties, or that future incidents of misconduct of them will not subject us to serious penalties or limitations on our business activities.

It is not always possible to deter or prevent misconduct of our Directors, staff or agent, and the precautions we take to prevent and to detect such activity may not be effective in all cases. Any misconduct may also result in investigation against our Group by regulatory bodies and such investigation may require us to devote substantial resources in handling such investigation, which may affect our operations. We could also suffer from adverse publicity, reputational damage or litigation losses that may arise from the misconduct of our personnel, which may have a material adverse effect on our business, financial conditions, growth prospect and results of operations.

We may not be able to implement our business strategies and future plans successfully

Our business strategies and future plans are set out in the paragraph headed “Business strategies” under the section headed “Business” and in the “Future plans and use of proceeds” section in this prospectus. However, the successful implementation of these strategies and plans depend on a number of factors including but not limited to the following:

- our ability to recruit and retain qualified and experienced professional staff; in particular, in the recruitment of qualified staff with relevant experience to support the expected expansion of our placing and underwriting services and our proposed commencement in the provision of discretionary account management services;
- our ability to cope with increased exposure to financial risk, operational risk, market risk and credit risk arising from our expanded scope of business;

RISK FACTORS

- our ability to comply with all regulatory requirements and maintain/obtain the qualifications on the range of financial and securities services we provide or intend to provide to our clients;
- our ability to secure sufficient financial resources;
- clients' acceptance and demand for our products and services and our ability to compete with our competitors; and
- our ability to adapt the changes in the market and government policies.

Many of these factors are beyond the control of our Group and by nature, are subject to uncertainty.

As such, there is no assurance that our business strategies and future plans can be implemented successfully or may be materialised in accordance with our expected timetable, or at all, despite our capital commitments and investments into the same. Any failure or delay in the implementation of any or all of these strategies and plans may have a material adverse effect on the profitability and prospects of our Group.

In addition, our future plans may place substantial demands on our managerial, operational, technological, financial and other resources. To manage and support our growth, we may need to improve our existing operational and administrative systems, improve our financial and management controls, enhance our ability to recruit, train and retain additional qualified personnel and staff. All of these endeavours will require substantial attention and time from management and significant additional expenditures. We cannot assure you that we will be able to manage any future growth effectively and efficiently, and our ability to capitalise on new business opportunities may be materially and adversely affected if we fail to do so, which could in turn materially and adversely affect our business, results of operations, financial condition and prospects.

Where one or more of the regulated activities of our Group has less than two responsible officers, our Group will be in breach of the relevant licensing requirements which could adversely affect our licensing status which may jeopardise our business operation

Under the licensing requirements of the SFO, we must have at all times at least two responsible officers to directly supervise the business of each of our regulated activities. Any resignation, sickness or absence of our responsible officers may expose our Group to operational disruption, and thus may result in a breach of the relevant licensing requirement. This may subsequently result in the suspension of our SFC licences and jeopardise our business operations.

RISK FACTORS

Our future financial performance will be negatively affected by the Listing expenses incurred in connection with the Share Offer

The financial performance of our Group for the year ending 31 March 2020 may be materially and adversely affected by capital and other expenditures which are expected to be made or recognised during the year. While it is expected that material capital expenditures will be incurred following the Listing for the purpose of implementing our future plans as set out in the “Future plans and use of proceeds” section in this prospectus, the expected returns and benefits from the relevant investments may not be immediately realised or materialised, or at all, following incurrence of the relevant expenditures.

Further, Listing expenses in the expected amount of approximately HK\$20.0 million would be charged and recognised to the combined statements of profit or loss and other comprehensive income for the Company for the year ending 31 March 2020.

The making of the capital expenditure and incurrence of the non-recurring Listing expenses described above are expected to materially and adversely affect the financial performance of our Group for the year ending 31 March 2020.

We recorded net operating cash outflows and may have difficulty meeting our payment obligations if we continue to record net operating cash outflow in the future

Our Group recorded net operating cash outflows in the amount of approximately HK\$53.0 million for the four months ended 31 July 2018 and HK\$58.8 million for the year ended 31 March 2019. See “Liquidity and financial resources” under the section headed “Financial information” in this prospectus for detailed analysis. We cannot guarantee that prospective business activities of our Group and/or other matters beyond our control (such as changes to the macroeconomic environment) will not adversely affect our operating cash flow and lead to net operating cash outflows in the future. If we face a net operating cash outflow in the future, (i) we may need to deplete our margin book, as our liquidity may be adversely affected; and (ii) we may not have sufficient working capital to cover our operating costs and we may have to fund our operating costs by obtaining more bank borrowings. There is however no assurance that we will succeed in obtaining more bank borrowings on terms favourable to us and we may incur significant finance costs for any such bank borrowings. This may materially and adversely affect our business, financial position and results of operations.

RISK FACTORS

RISKS OPERATING TO THE INDUSTRY IN WHICH WE OPERATE

We may not be able to compete successfully in the highly competitive financial service industry in Hong Kong

We operate in the financial services industry in Hong Kong, which has a large number of existing participants, making the industry highly competitive. In 2019, there were 704 HKEX Participants, including 658 trading participants and 46 non-trading participants. On the other hand, as at 30 September 2019, there were 1,417, 1,572 and 1,774 corporations licensed to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO, respectively according to market and industry statistics published on the SFC's website. New participants may enter into the industry provided that they obtain the requisite licences and capital. Apart from large multi-national financial institutions such as banks and investment banks with a global network and local presence in Hong Kong, we also face competition from small and medium-sized local financial services firms in relation to pricing, range of services offering and market reputation. Our Group may have to compete against competitors who may have a larger client base, greater brand recognition in the market, more human and financial resources, ability to offer a wider range of services, have more established networks and business relationships and/or have longer operating history than that of our Group. Some firms may also have resources to expand their operational scale, market share as well as geographical coverage through undertaking mergers and acquisitions.

There is no assurance that our Group will be able to maintain our competitive strengths even if we are able to respond rapidly to the changing business environment and/or capture new market opportunities. Our inability to remain competitive could lead to a reduction in our market share (as our clients are not bound to use our services and can freely switch to other service providers and/or decrease their use of our services), and any further intensification of competition in terms of pricing may lead to reduced profit margins. As a result, our operating performance, financial results and prospects may be materially and adversely affected.

RISK FACTORS

Our business is subject to extensive regulatory requirements, non-compliance with which, or changes in which, may affect our operations or results

The Hong Kong financial services industry is highly regulated and our operating subsidiary, Sinomax Securities, as a corporation licensed by the SFC to carry out regulated activities, is subject to extensive ongoing requirements which are set out under the SFO as well as other regulations, codes and guidelines prescribed by the SFC from time to time including, without limitation, the CSR and the FRR. These requirements require Sinomax Securities and each of its substantial shareholders (as defined in the SFO) and responsible officers to be, and continue to be, fit and proper. Any failure by Sinomax Securities or persons accredited to it to comply with applicable requirements and ongoing obligations may result in, among other things, (i) the commencement of investigations and/or proceedings; (ii) the imposition of additional conditions on existing licence(s); (iii) the imposition of sanctions and penalties as well as other civil and/or criminal consequences; and (iv) the risk of suspension or revocation of licence(s). Any such investigation, additional licence conditions, sanction or penalty, or the suspension of licences will materially and adversely affect our reputation as well as our business prospects and results of operations.

Further, the SFC may amend, supplement and/or modify the requirements on licensed corporations as it considers necessary for the proper regulation of the Hong Kong securities and futures market. Any such change or tightening of regulations and/or requirements on licensed corporations (which may involve an amendment to applicable laws, regulations and guidelines) may (i) require us to incur additional costs for compliance; and (ii) potentially affect our ability to carry on our existing regulated activities.

In addition, the SFC may carry out such regulatory inspections, investigations and/or reviews on licensed corporations as it deems necessary from time to time. Sinomax Securities is required to fully cooperate with, and respond to enquiries from the SFC over any review process which may require our devotion of time and resources and may increase our cost of compliance. For the details of the major findings of the inspections, investigations and/or reviews carried out by the SFC, please refer to the paragraphs headed “Inquiry under section 56 of the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) (repealed and substituted by the SFO) by persons purporting to market securities”, “Findings of SFC inspection visit in October 2006”, “Findings of the SFC follow-up visit in October 2010”, “Findings of SFC inspection visit in May 2013”, “Compliance advice letter dated 5 May 2014 from the SFC”, “Findings with respect to the letter dated 18 February 2015 from the SFC”, “Findings of the 2016 assurance report”, “Findings with respect to the letter dated 6 July 2017 from Sinomax Securities”, “Findings of the 2017 assurance report”, “Findings of the 2018 assurance report” and “Findings of SFC inspection visit in May 2019” under the section headed “Business” of this prospectus.

RISK FACTORS

With respect to SFC investigations, licensed persons may be subject to secrecy obligations under the SFO whereby they may not be permitted to disclose certain information relating to investigations. Unless we are specifically named as the party that is being investigated under a SFO investigation, we generally do not know whether Sinomax Securities and/or any of its directors, responsible officers, licensed representatives or staff is the subject of any investigation. If the results of inspections or investigations reveal misconduct, the SFC may take disciplinary actions (such as revocation or suspension of licences, public or private reprimand or imposition of pecuniary penalties) against Sinomax Securities and/or the relevant officers or staff. Any sanctions, disciplinary actions taken against or penalties imposed against Sinomax Securities and/or the relevant director or staff personnel will negatively affect our reputation and may materially and adversely impact our business prospects and financial results.

We are required to maintain a high level of funds and liquidity for our business activities and proposed expansions

As a corporation licensed with the SFC to carry on regulated activities, Sinomax Securities, our operating subsidiary is required to maintain a minimum amount of share capital and liquid capital as prescribed under the FRR. Further, the Stock Exchange also imposes similar financial requirements on HKEX Participants. The required liquid capital is the higher of HK\$3 million and its variable required liquid capital as stipulated by the FRR. For more details, please refer to the paragraph headed “Securities and Futures (Financial Resources) Rules (Chapter 571N of the Laws of Hong Kong)” under the section headed “Regulatory overview and licensing requirements” in this prospectus.

Our Group 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 suspend our licences, impose conditions in relation to our regulated activities, or take other appropriate disciplinary actions against our Group, which may adversely affect our Group’s business operations and financial performance. Although we have not breached the statutory capital requirements under the FRR or imposed by the Stock Exchange during the Track Record Period, there is no assurance that such failure will not happen in the future. Our liquid capital may be tightened when there is a significant increase in margin financing activities, increase in underwriting exercises and/or settlement of securities trading transactions on behalf of our securities brokerage clients.

As part of our risk management policy, we maintain a regulatory buffer which is 55% in excess of the regulatory minimum amounts, but such regulatory buffer has been materially depleted due to the incurrence of Listing expenses. Our Directors believe that such regulatory buffer should not be further depleted through the intended increase in expenditure for expanding our placing and underwriting business or through the lending of cash (liquid capital) to our clients from our proposed expansion of margin book, as further depletion may increase the risk of failure in meeting FRR requirements (which may potentially result in a suspension of our SFC licence, or jeopardise our registration as a HKEX Participant). Our Directors believe that the Share Offer would be an appropriate means for raising funds to finance the proposed activities without materially affecting our maintenance of our regulatory buffer.

RISK FACTORS

During the Track Record Period, we mainly financed our business activities by using the cash generated from our business operations and from borrowings from banks. As at the Latest Practicable Date, we had outstanding bank loans in the principal amount of HK\$35.0 million. Our Directors believe that the constraint of our financial resources has been a restraining factor in our potential participation in some sizable IPOs. Our Directors consider that we may need additional funding after the Listing in order to respond to unanticipated opportunities, including opportunities to expand, develop new service offerings, enhance existing services, or acquire complementary businesses or technologies. We may raise additional funding through public or private financing, strategic alliance or other arrangements. There can be no assurance that such additional funding, if required, will be available on terms available to us, or at all.

Adverse changes in the economic and other policies of the PRC government could have a material and adverse effect on our business, financial position and operations

A portion of our revenue is derived from clients who reside in the PRC. For the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, respectively, approximately 20%, 21%, 22% and 24% of our clients reside in the PRC according to declarations in their accounts opening documentation. As such, our continued success will depend to a material extent on the ability of our PRC clients to remit funds to Hong Kong and/or source offshore funds primarily for securities trading.

The economy of the PRC differs from the economies of most developed countries in a number of aspects, such as the extent of government intervention, growth rate and control of foreign exchange. In particular, the PRC government exerts substantial control over the growth of the domestic economy by means of, among others, resource allocation as well as setting policy on foreign exchange. There is no assurance that China will not implement reforms or policies which may drastically (i) restrict PRC investors from investing abroad; and/or (ii) restrict the volume and type of securities which may be traded by them. For instance, the SAFE has in recent years reiterated that offshore investments by PRC residents by way of outbound personal remittance are prohibited unless such investments are made via certain permitted channels (such as the QDII scheme) or for certain permitted purposes. Such reforms or policies may potentially affect the attractiveness of Hong Kong as an alternative venue for PRC investors to trade securities, or otherwise restrict their outbound investment opportunities if they are unable to secure offshore funds. If China implements market-oriented reforms involving unprecedented or experimental revision of its economic reform measures, there is no guarantee that adjustments to its policies will not negatively affect our operations and business development. Any policies which reduce the willingness of our PRC clients to trade securities through us or which otherwise restrict their ability to remit funds into Hong Kong and/or source offshore funds for securities trading, will adversely affect our business and results of operations.

RISK FACTORS

RISKS RELATING TO THE SHARE OFFER AND SHARE PERFORMANCE

There has been no prior public market for our Shares and the liquidity, market price and trading volume of our Shares following the Share Offer may be volatile

Prior to the Share Offer, there is no public market for our Shares. The listing of, and the permission to deal in, our Shares on the Stock Exchange do not guarantee the development of an active public trading market for our Shares or the sustainability thereof following completion of the Share Offer.

The market price and trading volume of our Shares may be volatile. Factors such as the following may affect the volume and price at which our Shares will trade:

- our Group's operational and financial performance;
- fluctuations in the market prices of our services;
- changes in earnings estimates or recommendations by financial analysts;
- the history of, and the prospects for, us and the financial and securities service industry;
- changes in our management, our past and present operations and the prospects for our business;
- changes in laws, regulations and policies affecting the financial and securities services industry;
- potential litigation or regulatory investigation; and
- general market sentiment and global and local political and economic environments.

Any such development may result in large and sudden changes in the volume and market price of our Shares. There is no assurance that these developments will or will not occur in the future and it is difficult to quantify the impact on our Group and on the trading volume and market price of our Shares.

In addition, both the market price and liquidity of our Shares could be adversely affected by factors beyond our Group's control and not directly attributable to the financial performance and the performance of our Group's business, especially if the financial market in Hong Kong experiences a significant price and volume fluctuation. In such cases, investors may not be able to sell their Shares at or above the Offer Price.

RISK FACTORS

Termination of the Underwriting Agreements

Prospective investors should note that the Underwriters are entitled to terminate their obligations under the Underwriting Agreements by the Joint Lead Managers (for themselves and on behalf of the Underwriters) by giving written notice to our Company upon the occurrence of any of the events stated in the section headed “Underwriting – Underwriting arrangements – The Public offer Underwriting Agreement – Grounds for termination” of this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Such events include, without limitation, any act of God, war, riot, public disorder, civil commotion, fire, flood, tsunami, explosion, epidemic, pandemic and/or outbreak of infectious diseases including, *inter alia*, the coronavirus (including the 2019-nCoV) and any other related or mutated forms of infectious diseases (or the escalation and/or intensification of any outbreak, epidemic and/or pandemic of the foregoing), act of terrorism, earthquake, strike or lock-out. Should the Joint Lead Managers (for themselves and on behalf of the Underwriters) exercise their rights and terminate the Underwriting Agreements, the Share Offer will not proceed and will lapse.

The market price of our Shares could fall during the period before the trading of the Shares begins

The Offer Price will be determined on or about the Price Determination Date, while our Shares are expected to commence trading on the Stock Exchange after the Shares are delivered. As such, investors may not be able to sell or otherwise deal in our Shares during that period. The market price of our shares could fall between the time of sale and the time trading begins as a result of adverse market conditions or other adverse developments.

Potential investors could face dilution as a result of future equity financings

We may need to raise additional funds in the future to finance, among other things, expansion or new developments relating to our existing operations or new acquisitions. If additional funds are raised through the issue of new equity and/or equity-linked securities of our Company other than on a pro-rata basis to the existing Shareholders, the shareholding of such Shareholders may experience further dilution in the net tangible assets book value per Share (if the additional Shares are issued at a price lower than the net tangible assets book value per Share at the time of their issuance) or such new securities may confer rights and privileges that take priority over those conferred by existing Shares, including the Offer Shares.

Exercising options under the Share Option Scheme may dilute or reduce shareholding of the Shareholders

Our Company has conditionally adopted the Share Option Scheme. As at the Latest Practicable Date, no option has been granted under the Share Option Scheme. Following the issuance of new Shares pursuant to any options which may be granted under the Share Option Scheme, the shareholding of existing Shareholders may be diluted which may also result in a dilution or reduction of the earnings per Share or net asset value per Share. In addition, the fair value of options which may be granted to employees of our Group under the Share Option Scheme will be charged to the combined statements of profit or loss and comprehensive income of our Group over the vesting periods of such options. Accordingly, the financial conditions and results of operations of our Group may be adversely affected.

RISK FACTORS

Future sales by existing Shareholders of a substantial number of the Shares in the public market could materially and adversely affect the prevailing market price of the Shares

Sales of substantial amounts of our Shares in the public market after the completion of the Share Offer, or the perception that these sales could occur, could adversely affect the market price of our Shares and could materially impair our ability to raise capital through offerings of our Shares in the future.

The Shares held by the Controlling Shareholders of our Group are subject to a lock-up period, beginning on the date on which trading in our Shares commences on the Stock Exchange, during which time the Controlling Shareholders are restricted from disposing their Shares. While we are not aware of any intention of our Controlling Shareholders to dispose of significant amounts of their Shares upon expiry of relevant lock-up periods, there is no assurance that they will not dispose of the Shares held by them in the future. We cannot predict the effect, if any, of any future sales of the Shares by any substantial shareholder of our Company or our Controlling Shareholders, that on the market price of the Shares. Sales of substantial amount of Shares by any substantial Shareholder or our Controlling Shareholders or any material issuance of new Shares by our Company, or the market perception that such sales or issuance may occur, could materially and adversely affect the prevailing market price of the Shares.

The interests of our Controlling Shareholders may differ from the interests of other Shareholders

Upon completion of the Share Offer and the Capitalisation Issue (assuming the Over-allotment Option is not exercised and taking no account of any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme), our Controlling Shareholders will collectively beneficially own in total 75% of our Shares. For more details of our Controlling Shareholders, please refer to the section headed “Relationship with our Controlling Shareholders” in this prospectus. If the interests of our Controlling Shareholders conflict with the interests of our other Shareholders, or if our Controlling Shareholders choose to cause our business to pursue strategic objectives that conflict with the interests of our other Shareholders, our Company or those other Shareholders may be adversely affected as a result. Our Controlling Shareholders could have significant influence in determining the outcome of any corporate transaction or other matters which may be submitted to our Shareholders for approval, (including, without limitation, mergers, privatisations, consolidations, the sale of all, or substantially all, of our assets, election of directors, and other significant corporate actions). Our Controlling Shareholders have no obligation to consider the interests of our Company or the interests of other Shareholders, other than pursuant to the Deed of Non-competition. Consequently, our Controlling Shareholders’ interests may not necessarily be in line with the best interests of our Company or the interests of other Shareholders, which may have a material and adverse effect on our Company’s business operations and the market price of our Shares.

RISK FACTORS

Our Group may not declare or pay any dividend on our Shares

Upon Listing, our Shareholders will be entitled to receive dividends only when declared by our Board. The payment and the amount of any future dividend will be at the discretion of the Board and will depend on, among other things, (i) the Group's results of operations, financial condition, future prospects, capital commitments, development pipeline, prevailing economic environment, contractual restrictions, capital and other reserve requirements, dividends received from the Company's subsidiaries and associates; (ii) the provisions governing the declaration and distribution of dividends as contained in our Articles and pursuant to our dividend policy; and (iii) compliance with applicable laws and any other conditions or factors which the Board deems relevant and having regard to the Director's fiduciary duties. For the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, we did not declare any dividend.

Our Shareholders may experience difficulties in effecting service of legal process, enforcing foreign judgements or bringing actions against us or our management and the laws of the Cayman Islands relating to the protection of the interests of minority shareholders are different from those in Hong Kong

Our Company is incorporated under the laws of the Cayman Islands. During the Track Record Period, our businesses, assets and operations were carried out through our operating subsidiary, Sinomax Securities, located in Hong Kong. Since our Company is incorporated under the laws of the Cayman Islands, our corporate affairs are governed by the laws of the Cayman Islands, and it may not be possible for our Shareholders to bring an action against our Company or against our Directors or officers based on Hong Kong laws in the event that our Shareholders believe that their rights as a shareholder have been infringed. Our corporate affairs are governed by our Memorandum of Association and Articles of Association and by the Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under the statutes or judicial precedents in Hong Kong. This may mean that the remedies available to our Group's minority Shareholders may be different from those available under Hong Kong law or the laws of other jurisdictions. A summary of Cayman Islands company law is set out in Appendix III to this prospectus.

RISK RELATING TO MACROECONOMIC AND POLITICAL CONDITIONS

General macroeconomic conditions, particularly in Hong Kong, may materially and adversely affect our Group's business, prospects, results of operations and financial position

The Hong Kong financial and securities market is directly affected by, among other things, the global and local political and economic environments including macroeconomic and monetary policies, currency and interest rate fluctuations and other socio-political factors.

RISK FACTORS

Any sudden downturn or sudden change in the global, regional or local economic, political, social, legal environment or government policies (for instance, Brexit, the ongoing trade war between China and the U.S. and any local political turmoil or civil disobedience movements) which are beyond our control, may adversely affect investor sentiments in the financial market in general. Severe fluctuation in market and economic sentiments may also lead to a prolonged period of sluggish market activities which would in turn have adverse impact on the securities market and consequently our business and operating performance may be materially and adversely affected.

Risks of acts of God, acts of war and terrorism, natural disasters, political unrest or civil disobedience movements, epidemics and other disasters

Events with adverse impact on investors' confidence and risk appetites, such as acts of God, acts of war and terrorism, natural disasters, political unrest or mass civil disobedience movements, outbreaks, epidemics, and/or pandemics (or the escalation and/or intensification of any outbreak, epidemic and/or pandemic of infectious diseases (including without limitation, the coronavirus (including the 2019-nCoV) disasters which are beyond our control, may impair investment or fundraising activities, and in turn, materially and adversely affect our business performance and results of operations.

Our business operation might be affected by large-scale protests as it might cause disruption to transportation or even force our office to close during our usual operating hours which may affect the order taking process of our securities trading business. The frequency and magnitude of effect brought by the large-scale protests are beyond our control and we could not guarantee that our back-up systems that allow remote access of our trading system and computer system could adequately support our business operation, for example, the order taking from client via telephone, in light of disruption. The occurrence of any large-scale protests may also have negative impact on the market sentiment and cause severe fluctuation to the stock markets.

Our business could be adversely affected by any outbreak, epidemic and/or pandemic of (or the escalation and/or intensification of any outbreak, epidemic and/or pandemic of) infectious or contagious diseases (such as the avian flu, H1N1 flu, SARS or coronavirus (including 2019-nCoV)) and/or other adverse public health developments in Hong Kong. Such events in Hong Kong or any other market in which we operate and conduct business could severely disrupt our business operations by having a negative impact on investor sentiment, the fundraising activities of issuers and proposed listing applicants, the macroeconomic condition as well as the financial conditions of the stock markets. Our business operations, financial condition as well as our fundraising activities as contemplated by this prospectus may be materially and adversely affected as a result.

Any deterioration in financial conditions of the stock market may affect investor sentiment and investment appetite, and may cause issuers to delay or cancel any fundraising plans in Hong Kong, which may stem demand for our placing and underwriting service. The occurrence of any of the above situations, either locally, regionally or globally, may have material adverse effects on our Group's business, results of operations and financial position on our business operation.

RISK FACTORS

Our business may be affected by any changes in tax laws and regulations

Under prevailing Hong Kong laws and regulations, the profits generated by Sinomax Securities, our operating subsidiary, is subject to taxation in Hong Kong. There is no assurance that the prevailing tax laws and regulations in Hong Kong (including profit tax rate) will not be revised or amended in the future. Any revision or amendment in tax laws and regulations may have an adverse impact on our business operations and our financial results.

RISKS RELATING TO THIS PROSPECTUS

Some facts, forecast, statistics and industry information contained in this prospectus may not be accurate, complete or up-to-date, and should not be duly relied upon

Certain facts, statistics, and data presented in the section headed “Industry overview” and elsewhere in this prospectus relating to the global and Hong Kong economies and securities industries have been derived, in part, from various official or third party publications and industry-related sources prepared by government officials or Independent Third Parties. Our Company believes that the sources of these information are appropriate, and the Sole Sponsor and our Directors have taken reasonable care to extract and reproduce these publications and industry-related sources in this prospectus. In addition, our Company has no reason to believe that such information is false or misleading, or any fact would render such information false or misleading has been omitted. However, neither our Group, our Directors, the Sole Sponsor, nor any parties involved in the Share Offer has independently verified, or make any representation as to, the accuracy or completeness of such information and statistics. It cannot be assured that statistics derived from such sources will be prepared on a comparable basis or that such information and statistics will be stated or prepared at the same standard or level of accuracy as, or consistent with, those in other publications within or outside Hong Kong. Accordingly, such information and statistics may not be accurate and should not be unduly relied upon.

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

This prospectus contains various forward-looking statements that are based on various assumptions. Our Group’s future results could differ materially from those expressed or implied by such forward-looking statements. Prospective investors of our Shares are cautioned that reliance on any forward-looking statements involves risks and uncertainties and that, although our Company believes that the assumptions on which the forward-looking statements based are reasonable, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements could be incorrect. In light of these and other uncertainties, the inclusion of forwarding-looking statements in this prospectus should not be regarded as representations by our Company and our plans or objectives will be achieved. Prospective investors should not place undue reliance on such forward-looking statements. Our Company does 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. For details of these statements and the associated risks, please refer to the section headed “Forward-looking statements” in this prospectus.

RISK FACTORS

You should read the entire prospectus carefully, and we strongly caution you not to place any reliance on any information contained in press articles or media regarding us or the Share Offer

There may be press and media coverage regarding us or the Share Offer, which may include certain events, financial information, financial projections and other information about us that do not appear in this prospectus. We have not authorised the disclosure of any other information not contained in this prospectus. We do not accept any responsibility for any such press or media coverage and we make no representation as to 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 prospectus is inconsistent or conflicts with the information contained in this prospectus, we disclaim responsibility for them. Accordingly, prospective investors should not rely on any such information. In making your decision as to whether to subscribe for and/or purchase our Shares, you should rely only on the financial, operational and other information included in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

INFORMATION ABOUT THE SHARE OFFER

This prospectus is published solely in connection with the Share Offer and the listing of the Shares on the Stock Exchange, which is solely sponsored by the Sole Sponsor and managed by the Joint Lead Managers and the Co-Managers.

The Share Offer comprises the Public Offer of 25,000,000 Public Offer Shares initially offered by our Company and the Placing of 225,000,000 Placing Shares (subject to reallocation on the basis set out under the section headed “Structure and conditions of the Share Offer” in this prospectus).

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised in connection with the Share Offer to give any information, or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Managers, the Underwriters, and any of their respective directors or any other person involved in the Share Offer.

Details of the structure of the Share Offer, including its conditions, are set out in the section headed “Structure and conditions of the Share Offer” of this prospectus, and the procedures for applying for the Public Offer Shares are set out in the section headed “How to apply for Public Offer Shares” of this prospectus and in the relevant Application Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

The following information is provided for guidance only. Prospective applicants for the Offer Shares should consult their financial advisers and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should inform themselves as to the relevant legal requirements of applying and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

UNDERWRITING

This prospectus is published in connection with the Share Offer, which is sponsored by the Sole Sponsor. The Public Offer is fully underwritten by the Public Offer Underwriters under the terms and conditions of the Public Offer Underwriting Agreement. The Placing Underwriting Agreement relating to the Placing is expected to be entered on or around the Price Determination Date, subject to agreement on pricing of the Offer Shares between the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company. The Share Offer is managed by the Joint Lead Managers.

If, for any reason, the Offer Price is not agreed between our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters) by the Price Determination Date, the Share Offer will not become unconditional and will lapse. Further information relating to the Underwriters and the underwriting arrangement is set out in the section headed “Underwriting” of this prospectus.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

As at the Latest Practicable Date, no action has been taken in any jurisdiction other than Hong Kong to permit the offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstance in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make an unauthorised offer or invitation.

The Public Offer Shares are offered to the public for subscription solely on the basis of the information contained and the representations made in this prospectus and the related Application Forms. No person is authorised in connection with the Share Offer to give any information or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Managers, the Underwriters, or any of their respective directors or employees, or any other persons or parties involved in the Share Offer.

Each person acquiring the Offer Shares will be required to confirm, and is deemed by his acquisition of the Offer Shares to have confirmed, that he or she is aware of the restrictions on the offers and sales of Offer Shares described above and that he or she is not acquiring, and has not been offered, any such Shares in circumstances that contravenes any such restrictions.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

The distribution of this prospectus and the offer and sale of the Offer Shares 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. In particular, the Offer Shares have not been publicly offered or sold, directly or indirectly, in the United States.

Prospective applicants for the Offer Shares should consult their financial advisers and take legal advice, as appropriate to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should inform themselves as to the relevant legal requirements and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

APPLICATION FOR LISTING OF OUR SHARES ON THE STOCK EXCHANGE

Application has been made to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer and the Capitalisation Issue (and any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme or as otherwise described herein).

No part of the share or loan capital of our Company is listed, traded or dealt in on any other stock exchange and, save as disclosed in the paragraph above, no such listing or permission to deal is being or is proposed to be sought.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment or transfer made in respect of any application of the Offer Shares, will be invalid if the listing of, and permission to deal in, the Offer Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the Share Offer, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange. In such event, any allotment made on application in pursuance of this prospectus shall, whenever made, be void.

Pursuant to Rule 8.08(1)(a) of the Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of at least 25% of the total issued share capital of our Company in the hands of the public (as defined in the Listing Rules). A total of 250,000,000 Offer Shares representing 25% of the enlarged issued share capital of our Company will be in the hands of the public immediately following completion of the Capitalisation Issue and the Share Offer and upon Listing (without taking into account of any new Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme).

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of the subscription for, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to the Shares, you should consult your professional adviser. It is emphasised that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Managers, the Underwriters, or any of their respective directors, agents or advisers or any other person involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding or disposal of, dealing in the Shares or the exercise of any rights in relation to them.

REGISTER OF MEMBERS AND STAMP DUTY

All Shares in issue pursuant to the applications in the Share Offer will be registered in the branch share register of our Company maintained by Union Registrars Limited, our Hong Kong Branch Share Registrar. The Shares may be registered on the principal share register of members in the Cayman Islands or on the branch share register of our Company in Hong Kong. The Shares are freely transferable, but only Shares registered on the branch share register maintained in Hong Kong may be traded on the Stock Exchange, unless the Stock Exchange otherwise agrees.

Dealings in the Shares registered on the branch share register of our Company in Hong Kong will be subject to Hong Kong stamp duty.

Unless our Company determines otherwise, dividends payable in Hong Kong dollars in respect of the Shares will be paid by cheque sent at the Shareholder's risk to the registered address of each Shareholder or, in the case of joint holders, the registered address of that one whose name stands first in the register in respect of the joint holding or to such person and to such address as the joint holder may in writing direct.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Details of the structure of the Share Offer, including its conditions, are set out in the section headed "Structure and conditions of the Share Offer" in this prospectus, and the procedures for applying for the Public Offer Shares are set out in the section headed "How to apply for Public Offer Shares" in this prospectus and in the relevant Application Forms.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or on any other date as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. If you are unsure about the details of CCASS settlement arrangements and how such arrangements will affect your rights and interests, you should seek the advice from your stockbroker or other professional advisers.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence at 9:00 a.m. on Wednesday, 19 February 2020. Shares will be traded in board lots of 10,000 Shares each. The stock code of the Shares is 2263.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, totals of rows or columns of numbers in tables may not be equal to the apparent total of individual items. Where information is presented in thousands or millions of units, amounts may have been rounded up or down. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Names of any laws and regulations, governmental authorities, institutions, natural persons or other entities which have been translated into English and included in this prospectus and for which no official English translation exists are unofficial translations and for your reference only. Expressions in any gender shall include other genders.

WEBSITE

The contents of any website mentioned in this prospectus do not form part of this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. Sy Man Chiu (許文超)	Flat B, 15/F., Block 1 Cascades 93 Chung Hau Street Ho Man Tin Kowloon Hong Kong	Chinese
Mr. Ng Sik Chiu (吳錫釗)	Flat B, 9/F, Block 4 Pacific View 38 Tai Tam Road Tai Tam Hong Kong	Chinese
<i>Non-executive Director</i>		
Mr. Keng Stephen Lee (李青松) (formerly known as Li Ching Chung (李青松))	Flat B, 3/F., Block 14 Braemar Hill Mansions 41 Braemar Hill Road North Point Hong Kong	Chinese
<i>Independent non-executive Directors</i>		
Dr. Yu Sun Say (楊孫西)	726 Clear Water Bay Road Sai Kung New Territories Hong Kong	Chinese
Mr. Lai Man Sing (黎文星)	Flat C, 22/F Begonia Mansion Tai Koo Shing Hong Kong	Chinese
Dr. Ho Chung Tai Raymond (何鍾泰)	Flat C, 12/F Perth Apartments 27 Perth Street Ho Man Tin Kowloon Hong Kong	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED IN THE SHARE OFFER

Sole Sponsor

Vinco Capital Limited

Unit 2610, 26th Floor, The Center
99 Queen's Road Central
Hong Kong

**Joint Bookrunners and
Joint Lead Managers**
(in alphabetical order)

BOCOM International Securities Limited

9th Floor, Man Yee Building
68 Des Voeux Road, Central
Hong Kong

China Everbright Securities (HK) Limited

24/F, Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

**China Investment Securities International
Brokerage Limited**

Level 17, Three Pacific Place
1 Queen's Road East, Hong Kong

**Haitong International Securities Company
Limited**

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

Kingsway Financial Services Group Limited

7/F Tower One, Lippo Centre
89 Queensway, Hong Kong

Vinco Capital Limited

Unit 2610, 26th Floor, The Center
99 Queen's Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Co-Managers

Livermore Holdings Limited

Unit 1214A, 12/F
Tower II Cheung Sha Wan Plaza,
833 Cheung Sha Wan Road
Kowloon, Hong Kong

Valuable Capital Limited

Room 2808, 28th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Sinomax Securities Limited

Room 2705-6, 27/F
Tower One, Lippo Centre
89 Queensway
Hong Kong

China Tonghai Securities Limited

18/F, China Building
29 Queen's Road Central
Hong Kong

Underwriters

(in alphabetical order)

BOCOM International Securities Limited

9th Floor, Man Yee Building
68 Des Voeux Road, Central
Hong Kong

China Everbright Securities (HK) Limited

24/F, Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

China Investment Securities International Brokerage Limited

Level 17, Three Pacific Place
1 Queen's Road East, Hong Kong

China Tonghai Securities Limited

18/F, China Building
29 Queen's Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Haitong International Securities Company Limited

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

Kingsway Financial Services Group Limited

7/F Tower One, Lippo Centre
89 Queensway, Hong Kong

Livermore Holdings Limited

Unit 1214A, 12/F
Tower II Cheung Sha Wan Plaza,
833 Cheung Sha Wan Road
Kowloon, Hong Kong

Sinomax Securities Limited

Room 2705-6, 27/F
Tower One, Lippo Centre
89 Queensway
Hong Kong

Valuable Capital Limited

Room 2808, 28th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Vinco Capital Limited

Unit 2610, 26th Floor, The Center
99 Queen's Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Legal advisers to our Company

As to Hong Kong law
Michael Li & Co.
Solicitors, Hong Kong
19th Floor, Prosperity Tower
39 Queen's Road Central
Central
Hong Kong

As to PRC Law
GFE Law Office
Units 3409-3412
Guangzhou CTF Finance Center
No. 6 Zhujiang Road East
Zhujiang New Town
Guangzhou
PRC

As to Cayman Islands law
Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

**Legal adviser to the Sole Sponsor
and the Underwriters**

As to Hong Kong law
Charltons
12th Floor, Dominion Centre
43-59 Queen's Road East
Hong Kong

Auditor and Reporting Accountants

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Compliance adviser**Vinco Capital Limited**

Unit 2610, 26th Floor, The Center
99 Queen's Road Central
Hong Kong

Industry consultant**Ipsos Limited**

6/F, China Life Center, Tower A
One Harbour Gate
18 Hung Kuen Road
Hung Hom
Hong Kong

Receiving bank**DBS Bank (Hong Kong) Limited**

11th Floor, The Center
99 Queen's Road Central
Central
Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarters and principal place of business in Hong Kong	Room 2705-6, 27/F Tower One, Lippo Centre 89 Queensway Hong Kong
Company's website	www.hkfsfinance.com <i>(the contents of the website do not form part of this prospectus)</i>
Company secretary	Mr. Wu Man Sun (<i>Certified Public Accountant</i>) Room 2705-6, 27/F Tower One, Lippo Centre 89 Queensway Hong Kong
Authorised representatives	Mr. Sy Man Chiu Flat B, 15th Floor, Block 1 Cascades 93 Chung Hau Street Ho Man Tin Kowloon Hong Kong Mr. Wu Man Sun (<i>Certified Public Accountant</i>) Room 2705-6, 27/F Tower One, Lippo Centre 89 Queensway Hong Kong
Audit committee	Mr. Lai Man Sing (<i>Chairman</i>) Dr. Yu Sun Say Dr. Ho Chung Tai Raymond
Remuneration committee	Dr. Yu Sun Say (<i>Chairman</i>) Mr. Keng, Stephen Lee (formerly known as Li Ching Chung) Mr. Lai Man Sing

CORPORATE INFORMATION

Nomination committee	Mr. Keng, Stephen Lee (formerly known as Li Ching Chung) (<i>Chairman</i>) Dr. Yu Sun Say Mr. Lai Man Sing
Principal share registrar and transfer office in the Cayman Islands	Conyers Trust Company (Cayman) Limited Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong branch share registrar and transfer office	Union Registrars Limited Suites 3301-04, 33/F Two Chinachem Exchange Square 338 King's Road North Point Hong Kong
Principal bankers	The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong Dah Sing Bank Limited 36/F, Everbright Centre 108 Gloucester Road Hong Kong

INDUSTRY OVERVIEW

This section contains certain information which has been directly or indirectly derived, in part, from various governmental, official, publicly available documents, the internet or other sources, which was not commissioned by us nor the Sole Sponsor. Our Directors believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting, compiling and reproducing such information. Our Directors have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The relevant information has not been independently verified by us, the Sole Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Co-Managers, any of the Underwriters or any of their respective affiliates or advisers, and therefore may not be accurate, complete or updated. We make no representation as to the accuracy, completeness or fairness of such information and accordingly the information contained herein should not be unduly relied upon. In respect of the information which has been directly or indirectly derived from the Stock Exchange's documents, the Stock Exchange and its subsidiaries do not guarantee the accuracy or reliability of the information and do not accept any liability (whether in tort, contract or otherwise) for any loss or damage arising from any inaccuracy or omission of the information; or any decision, action or non-action based on or in reliance upon any information by any person. Our Directors confirm that after making reasonable enquiries, there has been no material adverse change in the market information since the date of the Ipsos Report and up to the Latest Practicable Date which may qualify, contradict or have an impact on the information in this section.

SOURCE AND RELIABILITY OF THE INFORMATION

We have commissioned Ipsos, an independent market research company, to analyse and report on the industry development, trends and competitive landscape of the licensed securities and futures intermediary services industry in Hong Kong at a fee of HK\$400,000. Ipsos is an independent market research company and is one of the largest research companies in the world, employing approximately 16,000 personnel worldwide across 88 countries. Ipsos conducts research on market profiles, market size, share and segmentation, distribution and value analysis, competitor tracking and corporate intelligence.

In compiling the Ipsos Report, Ipsos obtained and gathered data and intelligence by: (a) conducting research covering government and regulatory statistics, industry reports and analyst reports, industry associations, industry journals and other online sources and data from Ipsos' research database; (b) performing client consultations to obtain background information on our Group; and (c) conducting primary research by interviewing key stakeholders and industry experts. Ipsos adopted the following assumptions while making projections for the report: (a) the supply of and demand for products and services in the licensed securities and futures intermediary services industry in Hong Kong are assumed to be stable and without hold-up from 2019 to 2022; and (b) it is assumed that there will be no external shock such as financial crisis or natural disasters in the global market that would affect the demand and supply of the licensed securities and futures intermediary services industry in Hong Kong from 2019 to 2022.

OVERVIEW OF THE SECURITIES AND FUTURES MARKET IN HONG KONG

Since the 1990s, Hong Kong's capital market has experienced rapid development, benefitting from the liberalisation of China's markets as well as the introduction of advanced trading systems which achieve better execution. Hong Kong's capital market has gradually become one of the most favourable investment markets globally. By 2000, approximately 40% of the total market turnover of the Hong Kong securities market was attributable to trading of overseas investors.

INDUSTRY OVERVIEW

The Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect were launched on 17 November 2014 and 5 December 2016, respectively. The two connect programmes provide mutual trading accesses between the Shanghai/Shenzhen and Hong Kong stock markets, allowing mainland and Hong Kong investors to trade on the respective markets in a less restrictive manner. The launch of the China Connect further stimulated trading activities on the securities market in Hong Kong, which subsequently generated demand for brokerage services.

In 2018, the Stock Exchange announced several amendments to the Listing Rules which took effect on 30 April 2018. These amendments (i) permit listings of biotech issuers that do not meet any of the Main Board financial eligibility tests; (ii) permit listings of companies with weighted voting right structures; and (iii) establish a new concessionary secondary listing route for Greater China and international companies that wish to secondary list in Hong Kong. The new listing regime is expected to bring more dynamism to the stock market in Hong Kong in the long term.

As of 31 December 2018, the Stock Exchange was ranked fifth among stock exchanges worldwide in terms of market capitalisation, with a market capitalisation of US\$3,819.2 billion. The Stock Exchange recorded the greatest number of IPOs globally in 2019, with 197 IPOs raising approximately HK\$312.9 billion in funds. The increase was contributed by two mega-size deals namely Alibaba's US\$11 billion secondary listing and the listing of Anheuser-Busch InBev (Budweiser Brewing Company) which raised approximately US\$5 billion, as well as other debutants.

The total market capitalisation of securities listed on the Stock Exchange, including the Main Board and GEM, increased from approximately HK\$24,042.8 billion in 2013 to approximately HK\$38,362.0 billion in 2019, representing a CAGR of approximately 8.1%. The Stock Exchange recorded strong performance in 2019, with total market capitalisation increasing from approximately HK\$29,909.4 billion in 2018 to approximately HK\$38,362.0 billion in 2019, representing a year-over-year growth rate of 28.3%. The significant growth could be explained by the PRC's strong economic growth, strong corporate earnings and interest from southbound funds.

OVERVIEW OF THE LICENSED SECURITIES AND FUTURES INTERMEDIARY SERVICE INDUSTRY IN HONG KONG

The licensed securities and futures intermediary service industry refers to the industry comprising corporations conducting a business in one or several regulated activities as defined by the SFO. To carry on a business of a regulated activity, corporations are required to obtain a licence from the SFC, and the licensed corporations and registered institutions who provide products and services to principals and investors are referred to as "intermediaries".

The total number of licensed securities and futures intermediaries in Hong Kong increased from 3,857 in 2013 to 5,666 in 2018, representing a CAGR of approximately 8.0%. The increase in the number of licensed securities and futures intermediaries in recent years may be attributed to the launch of the China Connect, stimulating the establishment of intermediaries to deal with expected demand in the securities and futures market in Hong Kong. In addition, the trend for China-funded intermediaries to increasingly set-up securities and brokerage businesses in Hong Kong in recent years may also support the increase in number of intermediaries in Hong Kong.

OVERVIEW OF THE LICENSED SECURITIES DEALING SERVICE INDUSTRY IN HONG KONG

The licensed securities dealing service industry comprises corporations conducting type 1 (dealing in securities) regulated activity, and these corporations are generally referred to as brokerage firms or brokerage service providers. These corporations provide securities dealing and brokerage services to clients (including principals and investors) which may involve (i) trading and brokering securities in respect of trades for clients, (ii) marketing and distributing of securities (including mutual funds and unit trusts) to clients, and (iii) placing and underwriting of securities in respect of fundraisings and secondary offerings and sale. Some brokerage firms may also provide securities margin financing services to facilitate the acquisitions or holdings of securities by their clients if they can meet a more stringent financial resources requirements set out in the SFO.

The main function of brokerage firms is to act as an agent to facilitate securities trading activities for investors in respect of securities listed on the Stock Exchange and/or on overseas markets. The main revenue stream of brokerage firms is commission fee charged to clients, as well as the interest income in the event clients fail to settle trades. A brokerage firm may also generate revenue from commission and fee income through placing and underwriting securities in respect of fundraisings and secondary offerings and sales, and interest income from the provision of securities margin financing services.

The securities market turnover of the Stock Exchange fluctuated over the period between 2013 and 2019, with the overall increase from approximately HK\$15,264.6 billion to approximately HK\$21,440.0 billion, representing a CAGR of approximately 5.8%, which may be attributable to the launch of China Connect. During the forecast period from 2020 to 2022, the securities market turnover is expected to grow from approximately HK\$30,473.8 billion to approximately HK\$35,657.7 billion, representing a CAGR of approximately 8.2%, driven by the broader listing regime which came into effect in April 2018. The expected increase in market turnover serves as a positive indicator for future demand for securities dealing and brokerage services in Hong Kong.

The number of HKEX Participants in Hong Kong increased at a CAGR of approximately 4.4%, from 543 participants in 2013 to 704 participants in 2019. HKEX Participants refer to corporations who may trade on or through the Stock Exchange and are licensed under the SFO to carry on securities dealing activities. The increase may be attributable to the opportunities brought by the launch of the China Connect and the increasing trend of China-funded brokerage firms establishing brokerage businesses in Hong Kong.

Commission income of the licensed securities dealing services industry in Hong Kong

The commission income of the licensed securities dealing service industry in Hong Kong fluctuated over the period between 2013 to 2018 and experienced an overall increase from approximately HK\$7.6 billion in 2013 to approximately HK\$9.2 billion in 2018, representing a CAGR of approximately 3.8%. As commission income is typically calculated as a certain percentage of the transaction value, total commission income of the industry is generally directly correlated with fluctuations in total securities market turnover on the Stock Exchange.

During the forecast period from 2019 to 2022, the commission income of the licensed securities dealing service industry in Hong Kong is expected to increase from approximately HK\$9.9 billion in 2019 to approximately HK\$12.0 billion in 2022 at a CAGR of approximately 6.6% (higher than the immediately preceding historical period). This is because while vigorous price competition will continue to exert dominated pressure in the commission rate in respect of securities dealing services, the promising future outlook of the securities market turnover is expected to support an overall increase in commission income.

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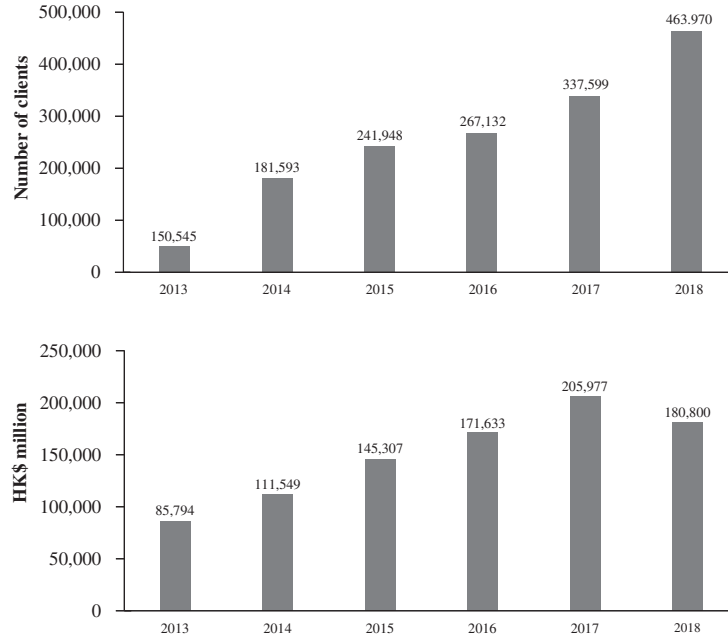
OVERVIEW OF THE LICENSED SECURITIES MARGIN FINANCING SERVICE INDUSTRY IN HONG KONG

The licensed securities margin financing industry comprises corporations conducting type 8 (securities margin financing) regulated activity, and these corporations are generally referred to as margin financiers. Margin financiers provide financing to margin clients for their purchase of stocks whereby clients' stocks and cash in client accounts are typically posted as collateral to secure the repayment of outstanding amounts on margin loans. Under the SFO, securities margin financing refers to the provision of financial accommodation for facilitating the acquisition and continued holding of listed securities. In 2018, there were approximately 224 margin financiers in Hong Kong. Securities dealing service providers who are already licensed for type 1 regulated activity (dealing in securities) are not required to be licensed for type 8 regulated activity (securities margin financing), but are required to satisfy the minimum paid-up share capital and minimum liquid capital requirements of type 8 regulated activity (securities margin financing).

In order to obtain margin financing, margin clients are required to deposit an initial margin to pay for a portion of the total cost of buying securities, and the purchased securities would be treated as collateral by the margin financiers. The portion of the security which is pledged, known as margin loan-to-value ratio, normally ranges between 5% and 85% in Hong Kong depending on the quality of the designated stocks. Licensed securities margin financiers generate revenue from interest income for providing margin loans to clients for their purchases of securities on the secondary market and IPOs.

Number of active margin clients in Hong Kong

The charts below set forth the (i) number of active margin clients, and (ii) amounts receivable from margin clients in Hong Kong over the period from 2013 to 2018:



Note: Active margin clients refer to clients for whom a licensed corporation is required to prepare and deliver monthly statements of account in respect of the relevant reporting month in accordance with the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules, and who have completed at least one transaction during the year.

Source: Securities and Futures Commission, HKSAR; Ipsos research and analysis

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From 2013 to 2018, the total number of active margin clients in Hong Kong grew at a CAGR of approximately 25.2%, and the amounts receivable from margin clients experienced an overall increase at a CAGR of approximately 16.1%. The increase can be explained by the growing stock market in Hong Kong, supported by an increase in number of listings and growing southbound investor interests for trading on securities listed on the Stock Exchange.

COMPETITIVE ANALYSIS OF THE LICENSED SECURITIES DEALING SERVICE AND LICENSED SECURITIES MARGIN FINANCING SERVICE INDUSTRIES IN HONG KONG

According to the SFC, there were approximately 704 HKEX Participants in Hong Kong in 2019. HKEX Participants are divided into 3 categories; “A”, “B” and “C”. Category A consists of the top 14 brokerage firms by transaction size, while Category B refers to the participants ranked from 15 to 65. The remaining participants in the market are grouped in Category C. The licensed securities dealing service industry in Hong Kong is fairly consolidated and dominated by certain large Category A firms, with Category A participants accounting for approximately 55.7% of the total market turnover in 2018, while Category B participants accounted for a share of approximately 35.7% of the total market turnover in the same year. Category B firms generally engage in a range of overseas and local institutional trading as well as retail trading. Category C firms accounted for approximately 8.7% of total market share in terms of turnover in 2018, and capture a majority of the retail trading in Hong Kong. The competition in this category is intense, with the brokerage firms also competing with the firms in Categories A and B. To compete with the firms in Categories A and B, Category C firms usually offer more unique and sophisticated services and develop effective and user-friendly online trading platforms to differentiate themselves from their competitors.

We are classified as a Category C HKEX Participant. In addition to providing securities dealing services, Category C firms also provide similar services to other services which we offer, including securities margin financing services and securities advisory services. The number of Category C firms increased from 478 in 2013 to 639 in 2019, representing a CAGR of 4.1%.

In the year ended 31 March 2018, we generated approximately HK\$31.1 million in revenue from the provision of securities dealing and brokerage services, which accounted for approximately 0.3% of the total commission income generated by intermediaries in the licensed securities dealing services industry in Hong Kong in 2018.

Market drivers and opportunities

Strength in index stocks continues to drive demand for securities dealing and securities margin financing services

The demand for securities dealing and securities margin financing services is closely related to the performance of the stock market in Hong Kong. As an important performance indicator of the Hong Kong stock market, the HSI registered solid earnings growth from 2013 to 2019 representing growth at a CAGR of approximately 3.2%. Emerging sectors (including the technology and telecommunications sectors) are expected to lead the HSI higher in the future and thus increase potential investors’ interest and confidence in Hong Kong’s stock market, which will further drive demand for securities dealing and securities margin financing services and support the development of the industries.

Market drivers and opportunities (licensed securities dealing service industry)

Comprehensive and evolving regulatory regime

Supervision of the securities and futures markets by the SFC and the Stock Exchange ensures the regular and normative operation of the market, and strengthens and protects the integrity and soundness of Hong Kong's securities and futures markets for the benefit of investors and the industry. Hong Kong's regulatory regime continues to evolve with an aim of capturing the latest opportunities and market dynamics in the capital market, including through China Connect and the new listing regime for emerging and innovative companies. Hong Kong's comprehensive and evolving regulatory regime has been a key driver for the licensed securities dealing service industry in Hong Kong.

CEPA has strengthened the relationship in securities trading between Hong Kong and the PRC

With the rapid development of the PRC economy, demand for capital raising from PRC enterprises, as well as investors' interest in investing in PRC securities, have increased. The Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA") has fostered trade and investment between Hong Kong and the PRC. For example, pursuant to the Agreement on Economic and Technical Cooperation to CEPA signed in June 2017, the PRC government shall further streamline the relevant requirements for overseas listings of PRC enterprises and create favourable conditions to support qualified PRC enterprises that satisfy Hong Kong's listing requirements to list in Hong Kong. Therefore, it is expected that the number of listed PRC securities will continue to increase in Hong Kong, driving demand for securities dealing services.

Launching of China Connect

The launches of the Shanghai-Hong Kong Stock Connect in 2014 and the Shenzhen-Hong Kong Stock Connect in 2016 have enabled mutual trading accessibility between the Hong Kong and Shanghai/Shenzhen stock markets. China Connect offers international investors a mechanism for investing directly into the PRC stock markets via brokerage firms in Hong Kong. At the end of 2018, investors had the option to choose from the 860 eligible stocks for northbound trading under the Shanghai-Hong Kong Stock Connect and 1,185 eligible stocks under the Shenzhen-Hong Kong Stock Connect. As the number of stock options are expected to continue to increase, investors will have more trading options and opportunities. The licensed securities dealing service industry in Hong Kong will be benefited from the potential increase in the number of securities trading transactions.

Future trends and developments (licensed securities dealing service industry)

Increase in popularity of online trading

Securities trading transactions processed via the internet have become increasingly popular in the licensed securities dealing service industry. According to the Stock Exchange, approximately 70.4% of brokerage firms offered online trading services to their clients in 2018, an increase from approximately 54.7% in 2012/2013. In addition, online trading represented approximately 60.9% of total retail investor trading in 2018, an increase from approximately 39.2% in 2012/2013. The growth is partly driven by the generally lower cost of online trading for both investors and brokerage firms compared with traditional methods. Further, online trading is more efficient, and the adoption of online trading allows brokerage firms to process a large number of securities transactions for clients in less time due to less manpower involved. The capability of processing a higher order quantity may contribute to a higher revenue.

Decrease in commission charges

Since 1 April 2002, minimum brokerage rates in respect of securities trading in Hong Kong have been deregulated, and thereafter the amount of brokerage fees charged by brokerage firms became subject to market forces and have become susceptible to downward pressure from time to time. Under the more competitive commission regime, a number of brokerage firms have adopted aggressive price strategies and reduced commission rates to seize opportunities to enlarge their client base and expand market size. As a result, lower commissions charged per trade per customer may result in a lower level of profit margin for brokerage firms.

Increase in the number of China-funded brokerage firms established in Hong Kong

With an aim to capture business from potential investors who are interested in PRC stocks, there has been an increase in the number of China-funded securities firms established in Hong Kong in recent years. Together with the launch of China Connect, the number of China-funded brokerage firms is expected to further increase, intensifying the competition in the licensed securities dealing service industry in Hong Kong.

Increasing trend of provision of value-added services

With the increasing activeness of the securities market and a growing number of investors, brokerage firms have turned to the provision of value-added services as they seek to capitalise on future industry growth in Hong Kong, as it was observed that an increasing number of investors, especially retail investors, have driven the demand for value-added services (such as discretionary account management services, securities advisory service and the provision of securities training and investment seminars) from brokerage firms. Given the intensifying level of competition and the increasing presence of new brokerage firms, brokerage firms are expected to take advantage of growth opportunities through increasing the provision of value-added services.

Entry barriers (licensed securities dealing industry)

Unestablished relationship with clients

Securities trading orders are often awarded through established client base or referrals, and clients generally stay with the same broker once a relationship has been established. Changing brokers (i) pose the risk of data loss and system failure; and (ii) requires the client to change his or her user habit. Thus, new entrants without established relationships with client may find it challenging to acquire new clients, resulting in barriers to entering the licensed securities dealing service industry.

Established competitors in a mature market

The licensed securities dealing service industry in Hong Kong is considered mature and consolidated and the industry has been dominated by certain large Category A firms, accounting for more than 50% of the total turnover in the past five years. It would be difficult for new entrants to enter the industry in Hong Kong as competitors are well-established with well-recognised reputations in the industry, and have solid relationships with clients. Further, current market players are more familiar with the industry and business operations, and therefore, new entrants may find it difficult to compete in such mature market.

Entry barrier (licensed securities margin financing service industry)

Substantial capital requirement

The paid-up share capital and liquid capital requirements imposed by the SFC on licensed margin financiers pose a key entry barrier for new entrants to the licensed securities margin financing service market in Hong Kong. Margin financiers should satisfy the minimum paid-up share capital (HK\$10 million) and minimum liquid capital (HK\$3 million) requirements in order to obtain the required license. New entrants may also face difficulties in obtaining borrowings and loans from corporate banks given the absence of a proven track record. Hence, the cost for new entrants to enter the securities margin financing service market is comparatively high due to the capital-intensive nature of the market.

OVERVIEW OF THE PLACING AND UNDERWRITING SERVICES INDUSTRY IN HONG KONG

Placing and underwriting services are essential for fundraising activities in the capital market, and relevant service providers in Hong Kong are required to obtain a SFC licence to carry on type 1 (dealing in securities) regulated activity. Such placing and underwriting services providers are generally referred to as underwriters and placing agents. The main responsibility of both underwriters and placing agents is to act as an agent to identify potential investors to subscribe for securities of issuers and to acquire securities from selling shareholders, while underwriters are also involved in carrying out and organising roadshows and other marketing activities during the book building process as well as involved in the pricing process of IPOs. The main revenue stream of placing and underwriting service providers is the commission charged to clients from the provision of placing and underwriting services which is calculated according to a predetermined commission rate which varies on a case-by-case basis and usually ranges from less than 1% to up to 20% of the value of securities being placed or underwritten.

In 2018, there were approximately 248 type 1 financial institutions that provide placing and underwriting services in Hong Kong. The placing and underwriting services market in Hong Kong is consolidated and dominated by the top market players who provide a wide range of investment banking services in addition to placing and underwriting services. The other players in the market, being Category B and C participants, operate on a boutique scale and focus on the provision of several services.

Total revenue generated in the placing and underwriting market in Hong Kong is positively correlated with equity funds raised on the Stock Exchange. The total equity funds raised in Hong Kong increased from approximately HK\$378.9 billion in 2013 to approximately HK\$541.7 billion in 2018, representing a CAGR of approximately 7.4%. Over the same period, the total revenue of placing and underwriting services in Hong Kong grew from approximately HK\$6.4 billion to approximately HK\$10.2 billion, representing a CAGR of approximately 9.9%. The total revenue increased during the period from 2013 to 2014 and hit a high in 2015 of approximately HK\$14.5 billion, attributable to the active fundraising activities in both the primary and secondary markets under a bullish market sentiment and favourable policies. However, revenue generated in the placing and underwriting market decreased from 2015 to approximately HK\$7.6 billion in 2017, as a result of the notable decrease in equity funds raised on the Stock Exchange from approximately HK\$1,115.6 billion in 2015 to approximately HK\$581.4 billion in 2017. In 2018, total revenue generated in the placing and underwriting market increased with a year-over-year growth rate of approximately

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33.7%, which was mainly attributable to (i) the increase in the number of PRC enterprises listing on the Stock Exchange in 2018, and (ii) the new listing rules that allow companies with dual-class share structures and pre-profit biotech firms to list in Hong Kong.

During the forecast period from 2019 to 2022, the amount of total equity funds raised in Hong Kong is expected to increase from HK\$593.7 billion in 2019 to HK\$710.7 billion in 2022, at a CAGR of approximately 6.2%, while the total revenue generated in the placing and underwriting market is expected to continue to increase, from approximately HK\$11.0 billion in 2019 to approximately HK\$13.2 billion in 2022, at a CAGR of approximately 6.5%. In light of favourable policies yet increasingly strict regulations, the equity market is expected to grow healthily, thus steadily drive the demand for placing and underwriting services. However, the risk of market correction should not be under-estimated in the view of global economic and political uncertainties such as interest rate hikes, geopolitical tensions and the threat of trade war among certain developed economies. As an open economy, the Hong Kong stock market is susceptible to the volatility in the PRC stock markets as well as in major overseas stock markets.

Market drivers and opportunities

New listing regime is expected to bring greater securities transactions in emerging and innovative sectors

The Stock Exchange's new rules to broaden Hong Kong's listing regime became effective on 30 April 2018. Under the new listing regime, companies from emerging and innovative sectors, including biotech companies, are encouraged to seek listing in Hong Kong. The new listing rules offer domestic and international investors greater access to fast-growing companies from emerging and innovative sectors, and hence may generate an increase in equity issues and investments. Therefore, the new regime is expected to provide a growth opportunity for placing and underwriting services providers in Hong Kong.

Future trends and developments

Increase in the number of PRC enterprises listing on the Stock Exchange

The number of PRC companies listed on the Stock Exchange increased from 797 in 2013 to 1,241 in 2019, representing a CAGR of approximately 7.7%. Over the same period, PRC companies' contribution to the total market capitalisation of the Hong Kong securities market increased from approximately 56.9% to approximately 72.9%. The increase in the number of PRC enterprises listed in Hong Kong may support the growth of funds raised through the Hong Kong stock market, facilitating the development of the placing and underwriting services market.

Increasing number of small and medium-sized companies to list in Hong Kong

The ongoing resilience of the placing and underwriting services market in Hong Kong in attracting small and medium-sized companies with sufficient liquidity to comply with the listing requirements will help maintain the competitiveness of Hong Kong, regardless of the lingering macro-economic and political uncertainties between the world's two largest economies, the U.S. and the PRC, which have established close economic ties with Hong Kong. Despite a decrease in large and prominent deals such as China Tower Corporation Limited (HKEX stock code: 788) and Xiaomi Corporation (HKEX stock code: 1810) which both listed in 2018, small and medium-sized enterprises from the media, entertainment and telecommunications, biotechnology, education, consumer products and health care sectors are expected to be listed in Hong Kong in the future. With a general expectation of Hong Kong as the preferred listing destination due to the positive impacts brought by the recent regulatory reforms, an increasing number of small and medium-sized listing applicants will continue to present opportunities for the placing and underwriting services market in Hong Kong.

Entry barrier

Unestablished client and investor bases, and limited industry network

The main responsibility of placing and underwriting services providers in a placing/underwriting deal is to sell equities issued by the company to suitable investors, which requires leveraging the service provider's wide industry network and diversified investor base. New entrants with unestablished client and investor bases and limited industry connections will find it difficult to compete with existing industry players. In addition, placing and underwriting deals are often awarded through current or previous clients or investors or referrals. Limited industry networks and unestablished client and investor bases may, therefore, hinder a new entrant's exposure to business opportunities in the placing and underwriting services market in Hong Kong, posing a barrier to entering the market.

OVERVIEW OF THE LICENSED ASSET MANAGEMENT INDUSTRY IN HONG KONG

The licensed asset management service industry comprises corporations conducting type 9 (asset management) regulated activity. Asset management service providers provide asset management services to principals and investors, such as (i) managing a portfolio of securities or futures contracts for clients; and (ii) managing properties funds. Some investors may also authorise asset managers to manage the dealing and investments of securities in their securities trading account(s), and this is commonly referred to as discretionary account management. The main stream of revenue of licensed asset managers is the management fee, which is paid to the asset manager on an ongoing basis and is deducted from the net asset value of managed funds.

Discretionary asset management refers to a form of asset management service in which investment decisions are made by a professional portfolio or fund manager on behalf of clients. Services and transactions under discretionary asset management are often tailored for professional, high-net-worth individuals or institutional investors, while products such as pension funds possess a relatively higher minimum investment requirement for investors.

The key drivers of demand for discretionary asset management services are: (i) the unwillingness of investors to devote substantial time and effort in connection with making day-to-day investment decisions; (ii) through engaging of asset managers time-constrained locals and PRC high-net-worth or institutional clients are able to delegate the investment process to qualified and competent asset manager who is able to spontaneously and efficiently act on available real-time information; (iii) the comfort of access to better investment opportunities through professional portfolio or fund managers; and (iv) discretionary account managers are generally more proactive in seizing investment opportunities at better offers, as they are incentivised through the performance-driven compensation mechanism of a percentage fee of the assets under management.

The number of licensed asset management service providers in Hong Kong increased from 995 in 2013 to 1,678 in 2018, at a CAGR of approximately 11.0%. Over the same period, the number of licensed corporations who obtained type 9 license increased from 950 to 1,643, respectively, representing a CAGR of approximately 11.6%, while the number of registered institutions who registered for type 9 license slightly decreased from 45 to 35, respectively, representing a CAGR of approximately -4.9%. Recently, there has been an increase in the number of PRC asset management service firms. Asset management is expected to continue to grow due to the government's promotion of the industry and as institutional pensions grow.

SECURITIES AND FUTURES COMMISSION

Regulation of securities and futures market

Founded in May 1989, the SFC is an independent statutory body responsible for regulating the securities and futures market in Hong Kong. The SFC strives to strengthen and protect the integrity and soundness of Hong Kong's securities and futures markets for the benefit of investors and the industry.

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

- to maintain and promote the fairness, efficiency, competitiveness, transparency and orderliness of the securities and futures industry;
- to promote understanding by the public of financial services including the operation and functioning of the securities and futures industry;
- to provide protection for members of the public investing in or holding financial products;
- to minimise crime and misconduct in the securities and futures industry;
- to reduce systemic risks in the securities and futures industry; and
- to assist the Financial Secretary 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 12 regulated activities under the SFO, investment products offered to the public, listed companies, the HKEX, automated trading service providers, approved share registrars, Investor Compensation Company Limited, and all market participants (including investors).

Overview of licensing requirements under the SFO

Under the SFO, any 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 for carrying on such regulated activity, unless one of the exceptions under the SFO applies. It is a serious offence for a person to conduct any regulated activity without the appropriate licence.

If a person actively markets, whether by himself or another person on his behalf and whether in Hong Kong or from a place outside Hong Kong, to the public any services that he provides, and such services, if provided in Hong Kong, would constitute a regulated activity, then that person is also subject to the licensing requirements under the SFO.

REGULATORY OVERVIEW AND LICENSING REQUIREMENTS

In addition to the licensing requirements on corporations that carry on regulated activities, any individual who:

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

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

Types of regulated activities

The SFO promulgates a single licensing regime where a person only needs one licence or registration to carry on different types of regulated activity as defined in Schedule 5 to the SFO provided that he is fit and proper to do so. There are 12 types of regulated activities, namely:

Type 1	Dealing in securities
Type 2	Dealing in futures contracts
Type 3	Leveraged foreign exchange trading
Type 4	Advising on securities
Type 5	Advising on futures contracts
Type 6	Advising on corporate finance
Type 7	Providing automated trading services
Type 8	Securities margin financing
Type 9	Asset management
Type 10	Providing credit rating services
Type 11	Dealing in OTC derivative products or advising on OTC derivative products
Type 12	Providing client clearing services for OTC derivative transactions

Note: Type 11 regulated activity is not yet in operation

As at the Latest Practicable Date, Sinomax Securities, our operating subsidiary, is licensed under the SFO to carry on the following regulated activities:

Type 1	Dealing in securities
Type 4	Advising on securities
Type 9	Asset management

Responsible officer

For each regulated activity conducted by a licensed corporation, it must appoint not less than two responsible officers, at least one of whom must be an executive director, to supervise the business of such regulated activity. A responsible officer is an individual approved by the SFC to supervise the regulated activity or activities of the licensed corporation to which he is accredited. The same individual may be appointed to be a responsible officer for more than one regulated activity provided that he/she is fit and proper to be so appointed and there is no conflict in the roles assumed. An “executive director” of a licensed corporation is defined as a director of the corporation who (a) actively participates in; or (b) is responsible for directly supervising, any business of the regulated activities for which the corporation is licensed. Every executive director of the licensed corporation must apply to the SFC to become a responsible officer.

A person who intends to apply to be a responsible officer must demonstrate that he fulfills the requirements on both competence and fit and properness and must have been delegated sufficient authority to effectively supervise the regulated activity he/she is responsible for. An applicant should possess appropriate ability, skills, knowledge and experience to properly manage and supervise the corporation’s regulated activities to which he/she is accredited. Accordingly, the applicant should fulfill certain requirements as to academic/industry qualification, industry experience, management experience and regulatory knowledge as stipulated by the SFC. If the responsible officer intends to conduct regulated activities in relation to matters falling within the ambit of a particular code issued by the SFC, e.g. the Takeovers Code or the Code on Real Estate Investment Trusts, additional competence requirements specific to that field would apply.

Managers-in-charge of Core Function (“MICs”)

Senior management is defined by the SFC to include directors, responsible officers and managers-in-charge of core functions of a licensed corporation. Pursuant to the Circular to Licensed Corporations Regarding Measures for Augmenting the Accountability of Senior Management (the “**Circular**”) published by the SFC on 16 December 2016, with effect from 18 April 2017, a licensed corporation is required to designate certain individuals as MICs and provide to the SFC information about its MICs and their reporting lines. MICs are individuals appointed by a licensed corporation to be principally responsible, either alone or with others, for managing each of the following eight core functions of the licensed corporation (“**Core Function(s)**”):

- (i) overall management oversight;
- (ii) key business line;
- (iii) operational control and review;
- (iv) risk management;
- (v) finance and accounting;
- (vi) information technology;
- (vii) compliance; and
- (viii) anti-money laundering and counter-terrorist financing.

REGULATORY OVERVIEW AND LICENSING REQUIREMENTS

Pursuant to the Circular, each licensed corporation should have at least one fit and proper person who is qualified to act in the capacity so employed or appointed as the MIC for each of its Core Functions. In a licensed corporation, one individual can be appointed as the MIC for more than one Core Function, or several individuals can be appointed as the MIC for one particular Core Function.

To determine whether an individual is a MIC of a particular Core Function, a licensed corporation should take into account the following:

- (i) *whether he or she has apparent or actual authority in relation to the particular Core Function*

An individual is a MIC if he/she:

- (a) occupies a position within the corporation which is of sufficient authority to enable the individual to exert a significant influence on the conduct of that Core Function;
- (b) has authority to make decisions (e.g., assume business risks within pre-set parameters or limits) for that Core Function;
- (c) has authority to allocate resources or incur expenditures in connection with the particular department, division or functional unit carrying on that Core Function; and
- (d) has authority to represent the particular department, division or functional unit carrying on that Core Function, e.g., in senior management meetings or in meetings with outside parties.

- (ii) *his/her seniority within the licensed corporation*

The SFC generally expects that a MIC to:

- (a) report directly to the board of the licensed corporation, or to the manager-in-charge who assumes the overall management oversight function of the licensed corporation; and
- (b) be accountable for the performance or achievement of business objectives set by the board of the licensed corporation, or by the manager-in-charge who assumes the overall management oversight function.

MIC shall be responsible for, among other things, the following:

- (i) ensuring the maintenance of appropriate standards of conduct and adherence to proper procedures by the licensed corporation;
- (ii) properly managing the risks associated with the business of the licensed corporation, including performing periodic evaluation of its risk management processes;
- (iii) understanding the nature of the business of the licensed corporation, its internal control procedures and its policies on the assumption of risk;
- (iv) understanding the extent of their own authority and responsibilities;

REGULATORY OVERVIEW AND LICENSING REQUIREMENTS

- (v) managing the anti-money laundering and counter-terrorist financing function;
- (vi) the adequacy and effectiveness of the licensed corporation's internal control systems, including information management compliance, audit or related reviews, operational controls and risk management; and
- (vii) examining the appropriateness of internal control systems and making any necessary amendments or changes so that they are appropriate for the operations of the licensed corporation's regulated business activities in Hong Kong.

The management structure of a licensed corporation (including its appointment of MICs) should be approved by the board of directors of the corporation. Furthermore, the board of directors should ensure that each of the licensed corporation's MICs has acknowledged his or her appointment as MIC and the particular Core Function(s) for which he or she is principally responsible.

Licensed representative

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

A person who intends to apply to be a licensed representative must fulfill the competence requirements as prescribed by the SFC (including in the Guidelines on Competence). An applicant needs to establish that he/she has the requisite basic understanding of the market in which he/she is to work as well as the laws and regulatory requirements applicable to the industry. In assessing his/her competence to be licensed as a representative, the SFC will have regard to academic and industry qualification as well as regulatory knowledge.

Fit and proper requirement

Persons applying for licences under the SFO, including licensed representations and responsible officers, must satisfy and continue to satisfy after the grant of such licences by the SFC that they are fit and proper persons to be so licensed. In simple terms, a fit and proper person means one who is financially sound, competent, honest, reputable and reliable.

Pursuant to section 129(1) 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:

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

REGULATORY OVERVIEW AND LICENSING REQUIREMENTS

The above fit and proper criteria serve as the fundamental basis when the SFC considers each licence or registration application. Detailed guidelines are contained in the Fit and Proper Guidelines, the Licensing Handbook and the Guidelines on Competence published by the SFC.

The Fit and Proper Guidelines apply to a number of persons including the following:

- (a) an individual who applies for licence or is licensed under Part V of the SFO;
- (b) a licensed representative who applies for approval or is approved as a responsible officer under Part V of the SFO;
- (c) a corporation which applies for a licence or is licensed under Part V of the SFO;
- (d) an authorised financial institution which applies for registration or is registered under Part V of the SFO;
- (e) an individual whose name is to be or is entered in the register maintained by the Hong Kong Monetary Authority under section 20 of the Banking Ordinance; and
- (f) an individual who applies to be or has been given consent to act as an executive officer of a registered institution under section 71C of the Banking Ordinance.

Furthermore, section 129(2) of the SFO empowers the SFC to take into consideration any of the following matters 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 relating to:
 - (i) any other corporation within the group of companies; or
 - (ii) any substantial shareholder or officer of the corporation or of any of its group companies;
- (c) in the case of a corporation licensed under section 116 or 117 of the SFO or registered under section 119 of the SFO or an application for such licence or registration:
 - (i) any information 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 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.

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The SFC is obliged to refuse to grant a licence or registration if the applicant fails to satisfy the SFC that the applicant is a fit and proper person to be licensed. The onus is on the applicant to prove to the SFC that the applicant is fit and proper to be licensed for the regulated activity.

Ongoing obligations of licensed corporations

Licensed corporations, licensed representatives and responsible officers must remain fit and proper as defined under the SFO at all times. They are also 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 ongoing obligations of a licensed corporation:

- (a) maintenance of minimum paid-up share capital and liquid capital, and submission of financial returns to the SFC, in accordance with the requirements under the Securities and Futures (Financial Resources) Rules (Chapter 571N of the Laws of Hong Kong) (as discussed in more detail below);
- (b) maintenance of segregated account(s), and custody and handling of client securities in accordance with the requirements under the Securities and Futures (Client Securities) Rules (Chapter 571H of the Laws of Hong Kong);
- (c) maintenance of segregate 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);
- (d) issuance of contract notes, statements of account 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);
- (e) maintenance of proper records in accordance with the requirements prescribed under the Securities and Futures (Keeping of Records) Rules (Chapter 571O of the Laws of Hong Kong);
- (f) submission of audited accounts and other required documents in accordance with the requirements under the Securities and Futures (Accounts and Audit) Rules (Chapter 571P of the Laws of Hong Kong);
- (g) maintenance of insurance against specific risks for specified amounts in accordance with the requirements under the Securities and Futures (Insurance) Rules (Chapter 571A1 of the Laws of Hong Kong);
- (h) notification to the SFC of certain changes and events, in accordance with the requirements under Securities and Futures (Licensing and Registration) (Information) Rules (Chapter 571S of the Laws of Hong Kong);
- (i) implementation of appropriate policies and procedures relating to client acceptance, client due diligence, record keeping, identification and reporting of suspicious transactions and staff screening, education and training, in accordance with the requirements under the Guideline on Anti-Money Laundering and Counter Financing of Terrorism issued by the SFC in November 2018 (as discussed in more detail below);

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- (j) compliance with the business conduct requirements under the Code of Conduct, the Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the SFC, the Advertising Guidelines Applicable to Collective Investment Schemes Authorised under the Product Codes and other applicable codes and guidelines issued by the SFC;
- (k) payment of annual fees and submission of annual returns to the SFC within one month after each anniversary of the licence;
- (l) notification to the SFC of any changes in the appointment of MICs or any change in certain particulars of MICs pursuant to the Circular to Licensed Corporations Regarding Measures for Augmenting the Accountability of Senior Management dated 16 December 2016 issued by the SFC;
- (m) compliance with the professional training and related record keeping requirements under the Guidelines on Continuous Professional Training issued by the SFC; and
- (n) compliance with the Guidelines on Disclosure of Fees and Charges Relating to Securities Services and other applicable codes, circulars and guidelines issued by the SFC from time to time.

Compliance and internal control

A licensed corporation is required to satisfy the SFC that policies and procedures are established and maintained to ensure the corporation's compliance with all applicable legal and regulatory requirements as well as with internal policies and procedures. In particular:

- management should establish and maintain an appropriate and effective compliance function within the corporation which, subject to constraint of size, is independent of all operational and business functions and which report directly to management;
- management should ensure the staff performing the compliance function possess the necessary skills, qualifications and experience to effectively execute their duties;
- staff performing the compliance function should establish, maintain and enforce effective compliance procedures; and
- staff performing the compliance function should promptly report to management upon the occurrence of material non-compliance by the corporation or any staff.

Office premises

Licensed corporations are required to have suitable office premises to conduct their regulated activities. In assessing whether an office premise is appropriate, the SFC will consider, among others:

- the security of the premises and whether there is a proper segregated office area;
- whether essential office equipment and telecommunication systems are situated in an area accessible by authorised personnel;
- whether the firm has taken sufficient action or measures to avoid confusion to its clients due to the co-existence of other firms in the same premises;

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- whether confidential or non-public information and client privacy will be sufficiently safeguarded against unauthorised access or leakage; and
- whether the premises are always accessible for visit by regulators.

Securities and Futures (Financial Resources) Rules (Chapter 571N of the Laws of Hong Kong)

Minimum capital requirements and the FRR

Licensed corporations are required under section 145 of the SFO to maintain at all times a minimum level of paid-up share capital and liquid capital. Depending on the types of regulated activity that the licensed corporation is applying for, a licensed corporation has to maintain at all times paid-up share capital and liquid capital not less than the specified amounts according to the FRR.

Minimum paid-up share capital

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

Regulated activity	Minimum paid-up share capital
Type 1: Dealing in securities	
(a) in the case where the corporation is an approved introducing agent or trader	Not applicable
(b) in the case where the corporation provides securities margin financing	HK\$10,000,000
(c) in any other case	HK\$5,000,000
Type 4: Advising on securities	
(a) in the case where the 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: Asset management	
(a) in the case where the 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

Source: Licensing Handbook and the FRR

Pursuant to the FRR, where the licensed corporation is licensed to carry on two or more regulated activities, the respective required minimum paid-up share capital and minimum liquid capital to be maintained by the licensed corporation shall be the highest applicable amounts among the activities.

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Sinomax Securities, which is a corporation licensed to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO and provides securities margin financing services, is required to maintain minimum paid-up share capital at the highest amounts amongst the regulated activities it participates in, being HK\$10,000,000.

Minimum amount of required liquid capital

Pursuant to the FRR, liquid capital is the amount by which a licensed corporation's liquid assets exceeds its ranking liabilities where (i) liquid assets are the amount of assets held by the licensed corporation, adjusted for such factors to take into account liquidity of certain assets as well as credit risks; and (ii) ranking liabilities are the sum of liabilities on the balance sheet of the licensed corporation (including, without limitation, any amounts payable by it in respect of any overdraft or loan, any accrued interest payable to any other person, accrued expenses, taxes and provisions for contingent liabilities), adjusted for such factors to take into account market risks and contingency. The method of calculating liquid assets and ranking liabilities is set out in Divisions 3 and 4 of the FRR respectively.

The FRR stipulates that a licensed corporation shall also maintain minimum liquid capital at all times which shall be the higher of the amount of (a) and (b) below (as applicable to our Group):

- (a) the amount of:
 - HK\$100,000 – in the case of a corporation licensed for type 4 (advising on securities) or type 9 (asset management) regulated activity which is subject to the licensing condition that it shall not hold client assets; or
 - HK\$3,000,000 – in the case of (i) a corporation licensed for type 1 (dealing in securities) regulated activity that is not an approved introducing agent or trader; or (ii) a corporation licensed for type 4 (advising on securities) or type 9 (asset management) regulated activity which is not subject to the licensing condition that it shall not hold client assets.
- (b) its variable required liquid capital, meaning the basic amount which is 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

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- (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 the requirement of payment of initial margin requirement.

If the licensed corporation applies for more than one type of regulated activity, the minimum paid-up share capital and liquid capital that the corporation should maintain shall be the higher or the highest amount required amongst those regulated activities applied for.

The requirements of becoming a HKSCC Direct Clearing Participant

As at the Latest Practicable Date, Sinomax Securities was a HKSCC Direct Clearing Participant. Set out below are the requirements to be admitted as a HKSCC Direct Clearing Participant:

- be a HKEX Participant by fulfilling, among others, the following requirements: (i) be a company limited by shares incorporated in Hong Kong and hold at least one Stock Exchange Trading Right; (ii) be a licensed corporation licensed under section 116(1) of the SFO to carry on type 1 (dealing in securities) regulated activity under the SFO; (iii) at all times, an HKEX Participant shall have at least one executive director registered with the Stock Exchange as a responsible officer; and (iv) comply with the financial resources requirements specified in the FRR made by the SFC under the SFO;
- undertake to (i) sign a participant agreement with HKSCC; (ii) pay to HKSCC an admission fee of HK\$50,000 in respect of each Stock Exchange Trading Right held by it; and (iii) pay to HKSCC its contribution to the guarantee fund of HKSCC as determined by HKSCC from time to time subject to a minimum cash contribution of the higher of HK\$50,000 or HK\$50,000 in respect of each Stock Exchange Trading Right held by it;
- open and maintain a single current account with one of the CCASS designated banks and execute authorisations to enable the designated bank to accept electronic instructions from HKSCC to credit or debit the account for CCASS money settlement, including making payment to HKSCC;
- provide a form of insurance to HKSCC as security for liabilities arising from defective securities deposited by it into CCASS, if so required by HKSCC; and
- have a minimum liquid capital of HK\$3,000,000.

Securities and Futures (Client Securities) Rules (Chapter 571H of the Laws of Hong Kong)

The replying limit stipulated under section 8A of the CSR applies to an intermediary which is licensed for dealing in securities or securities margin financing and where the intermediary or an associated entity of such intermediary replying securities collateral. The intermediary shall ascertain the aggregate market value of the replying securities collateral, which shall be calculated by reference to the respective closing prices of the collateral on that Business Day.

Pursuant to section 8A of the CSR, if the aggregate market value of the replying securities collateral as calculated above exceeds 140% of the intermediary's aggregate margin loans on the same Business Day, the intermediary shall by the close of business on the next Business Day following that day withdraw, or cause to be withdrawn, from deposit an amount of replying securities collateral such that the aggregate market value of the replying securities collateral at that time, which is calculated by reference to the respective closing prices on that day, does not exceed 140% of the intermediary's aggregate margin loans as at the close of business on that day.

Offence to issue advertisements, invitations or documents relating to investments

Our Group is engaged in, among others, the placing and underwriting services that may involve the marketing of securities. Under section 103(1) of the SFO, the issue of an advertisement, invitation or document which contains an invitation to the public:

- (a) to enter into or offer to enter into (i) an agreement to acquire, dispose of, subscribe for or underwrite securities; or (ii) a regulated investment agreement or an agreement to acquire, dispose of, subscribe for or underwrite any other structured product; or
- (b) to acquire an interest in or participate in, or offer to acquire an interest in or participate in, a collective investment scheme,

has to be authorised by the SFC under section 105(1) of the SFO, unless specific exemptions apply.

The specific exemptions include, among others, under section 103(3)(k) of the SFO, if the issue of the advertisement, invitation or document made in respect of securities or structured products, or interests in any collective investment scheme, that are or are intended to be disposed of only to "professional investors" (as defined in Part 1 of Schedule 1 to the SFO).

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If a person commits an offence contrary to section 103(1) of the SFO in that he/she issues an advertisement, invitation or document relating to investments without the authorisation of the SFC and no specific exemptions under the SFO applies, he is liable:

- (a) on conviction on indictment to a fine of HK\$500,000 and to imprisonment for 3 years and, in the case of a continuing offence, to a further fine of HK\$20,000 for every day during which the offence continues; or
- (b) on summary conviction to a fine of HK\$100,000 and to imprisonment for 6 months and, in the case of a continuing offence, to a further fine of HK\$10,000 for every day during which the offence continues.

Obligation for substantial shareholder

Under section 131 of the SFO, a person (including a corporation) has to apply for the SFC's approval prior to becoming or continuing to be a substantial shareholder of a licensed corporation.

A person, being aware that he or she becomes a substantial shareholder of a licensed corporation without the SFC's prior approval should, as soon as reasonably practicable and in any event within three Business Days after he or she becomes so aware, apply to the SFC for approval to continue to be a substantial shareholder of the licensed corporation.

Employee dealings

As stated in the Code of Conduct, a 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 for their own accounts in securities. In the event that employees of a registered person are permitted to deal for their own accounts in securities:

- (i) the written policy should specify the conditions on which employees may deal for their own accounts;
- (ii) employees should be required to identify all related accounts (including accounts of their minor children and accounts in which the employees hold beneficial interests) and report them to senior management;
- (iii) employees should generally be required to deal through the registered person or its affiliates;
- (iv) if the 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, and its employees are permitted to deal through another dealer, in those securities, the registered person and employee should arrange for duplicate trade confirmations and statements of account to be provided to senior management of the registered person;

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- (v) any transactions for employees' accounts and related accounts should be separately recorded and clearly identified in the records of the registered person; and
- (vi) transactions of employees' accounts and related accounts should be reported to and actively monitored by senior management of the 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 registered person of these transactions or orders is not prejudicial to the interests of the registered person's other clients.

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

Anti-money laundering and counter terrorist financing

Licensed corporations are required to comply with the applicable anti-money laundering and counter-terrorist financing laws and regulations in Hong Kong as well as the Guideline on Anti-Money Laundering and Counter Financing of Terrorism issued by the SFC on 1 November 2018.

The guideline provides practical guidance to assist licensed corporations and their senior management in designing and implementing their own anti-money laundering and counter terrorist financing policies, procedures and controls in order to meet the relevant legal and regulatory requirements in Hong Kong. Under the guideline, licensed corporations should, among other things:

- (a) assess the risks of any new products and services before they are introduced and ensure that appropriate additional measures and controls are implemented to mitigate and manage the associated money laundering and terrorist financing risks;
- (b) identify the client and verify the client's identity using reliable, independent source documents, data or information, and review from time to time documents, data and information relating to the client obtained to ensure that the client's information is up-to-date and relevant;
- (c) conduct ongoing monitoring of transactions of the clients to (i) ensure that they are consistent with the client's business, risk profile and source of funds, and (ii) identify transactions that are complex, unusually large in amount or of an unusual pattern and have no apparent economic or lawful purpose, and examine the background and purposes of those transactions and set out its findings in writing;
- (d) maintain a database of names and particulars of terrorist suspects and designated parties which consolidates the various lists that have been made known to the licensed corporation or, alternatively, make arrangements to access to such a database maintained by third party service providers; and

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- (e) conduct ongoing monitoring for identification of suspicious transactions and ensure compliance with their legal obligations of reporting funds or property known or suspected to be proceeds of crime or terrorist property to the Joint Financial Intelligence Unit, a unit jointly run by the Hong Kong Police Force and the Hong Kong Customs and Excise Department to monitor and investigate suspected money laundering.

We set out below a brief summary of the principal legislation in Hong Kong that is concerned with money laundering and terrorist financing.

(1) Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (Chapter 615 of the Laws of Hong Kong)

Among other things, the ordinance imposes requirements relating to client due diligence and record-keeping and provides regulatory authorities with the powers to supervise compliance with the requirements under the ordinance. In addition, the regulatory authorities are empowered to (i) ensure that proper safeguards exist to prevent contravention of specified provisions in the ordinance; and (ii) mitigate money laundering and terrorist financing risks.

(2) Drug Trafficking (Recovery of Proceeds) Ordinance (Chapter 405 of the Laws of Hong Kong)

Among other things, the ordinance empowers competent authorities to investigate assets suspected to be derived from drug trafficking activities, and contains provisions for the freezing of assets on arrest and the confiscation of the proceeds from drug trafficking activities. It is an offence under the ordinance if a person deals with any property knowing or having reasonable grounds to believe it to be the proceeds from drug trafficking. The ordinance requires a person to report to an authorised officer if he/she knows or suspects that any property (directly or indirectly) is the proceeds from drug trafficking or is intended to be used or was used in connection with drug trafficking, and failure to make such disclosure constitutes an offence under the ordinance.

(3) Organised and Serious Crimes Ordinance (Chapter 455 of the Laws of Hong Kong)

Among other things, the ordinance empowers officers of the Hong Kong Police Force and the Hong Kong Customs & Excise Department to investigate organised crime and triad activities, and gives the courts jurisdiction to confiscate the proceeds of organised and serious crimes, to issue restraint orders and charging orders in relation to the property of defendants of specified offences. The ordinance extends the money laundering offence to cover the proceeds from all indictable offences in addition to drug trafficking.

(4) United Nations (Anti-terrorism Measures) Ordinance (Chapter 575 of the Laws of Hong Kong)

Among other things, the ordinance provides that it would be a criminal offence to: (i) provide or collect funds (by any means, directly or indirectly) with the intention or knowledge that the funds will be used to commit, in whole or in part, one or more terrorist acts; or (ii) make any funds or financial (or related) services available, directly or indirectly, to or for the benefit of a person knowing that, or being reckless as to whether, such person is a terrorist or terrorist associate. The ordinance also requires a person to report his knowledge or suspicion of terrorist property to an authorised officer, and failure to make such disclosure constitutes an offence under the ordinance.

Know your client obligations of a licensed corporation

Under the Code of Conduct, a licensed corporation should take all reasonable steps to establish the true and full identity of each of its clients, and of each client's financial situation, investment experience, and investment objectives. In particular, pursuant to the Code of Conduct, where an account opening procedure other than a face-to-face approach is used, it should take satisfactorily steps to ensure the identity of the client is properly ascertained.

Where the account opening documents are not executed in the presence of an employee of the licensed or registered person, the signing of the client agreement and sighting of related identity documents should be certified by any other licensed or registered person, an affiliate of a licensed or registered person, a Justice of the Peace, or a professional person such as a branch manager of a bank, certified public accountant, lawyer or notary public.

The Code of Conduct provides that alternatively, the identity of a client (other than corporate entities) may be properly verified if the licensed or registered person complies with the following procedural steps:

- (i) the new client sends to the licensed or registered person a signed physical copy of the client agreement together with a copy of his or her identity document (identity card or relevant sections of passport) for verification of his or her signature and identity;
- (ii) the licensed or registered person should obtain and encash a cheque (in an amount not less than HK\$10,000 and bearing the client's name as shown in his or her identity document) issued by the new client and drawn on the client's account with a licensed bank in Hong Kong;
- (iii) the licensed or registered person checks that the signature on the cheque issued by the client and the signature on the client agreement are the same;
- (iv) the client has been informed (in the client agreement or by way of a notice) of this account opening procedure and the conditions imposed, in particular the condition that the new account will not be activated until the cheque has been cleared; and

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- (v) proper records are kept by the licensed or registered person to demonstrate that the client identification procedures have been followed satisfactorily.

Alternatively, the relevant account opening documentation should be certified using the certification services recognised by the Electronic Transactions Ordinance (Chapter 553 of the Laws of Hong Kong), such as certification services available from the Hongkong Post, or the identity of the client must be verified pursuant to the alternate prescribed procedural steps set out in the Code of Conduct.

Suitability obligations expected of a licensed corporation

Pursuant to paragraph 5.2 of the Code of Conduct, the licensed or registered person should, when making a recommendation or solicitation, ensure the suitability of the recommendation or solicitation for that client is reasonable in all the circumstances based on the information about the client of which the licensed or registered person is or should be aware through the exercise of due diligence.

The licensed or registered person should, among other things, observe the following procedural steps:

- (i) know their clients;
- (ii) understand the investment products they recommend to clients;
- (iii) provide reasonably suitable recommendations by matching the risk return profile of each investment product with the personal circumstances of each client to whom it is recommended;
- (iv) provide all relevant material information to clients and help them make informed investment decisions;
- (v) employ competent staff and provide appropriate training; and
- (vi) document and retain the reasons for each investment recommendation made to each client.

Guidelines for securities margin financing activities

In April 2019, the SFC issued its conclusions to its consultation from August 2018 which proposed new Guidelines for Securities Margin Financing Activities. The New Guidelines will take effect on 4 October 2019 and apply to (i) persons licensed for type 1 (dealing in securities) regulated activity who provide financial accommodation to any of their clients in order to facilitate acquisitions or holdings of listed securities by the persons for their clients; and (ii) persons licensed for type 8 (securities margin financing) regulated activity (collectively, “**SMF brokers**”). The New Guidelines do not apply to IPO loans.

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The New Guidelines provide guidance for margin lending policies and risk controls on SMF activities. The control measures specified in the New Guidelines are the minimum standards expected of SMF brokers and are not meant to be exhaustive. Some of the key aspects of the New Guidelines are as follows:

- **total margin loans controls** – an SMF broker may adopt a total margin loans to-capital multiple benchmark up to five only if it has high quality margin loan portfolio and complies with all other applicable provisions in the New Guidelines. An SMF broker with lower quality margin loan portfolio or weak SMF risk controls should adopt a lower total margin loans-to-capital multiple benchmark.
- **margin client credit limit control** – an SMF broker should set prudent credit limits for individual margin clients or groups of connected margin clients to ensure the obligations of margin clients arising from the financing provided by it are commensurate with the financial capability of the margin clients. In setting the credit limits, an SMF broker should consider, among other things, the financial situation of the client, any credit reference information, the quality of the underlying collateral and any other credit support, the investment objectives, risk appetite and trading patterns of the client.
- **securities collateral concentration controls** – an SMF broker should set prudent concentration limits to avoid building up excessive exposure to individual securities collateral or groups of highly correlated connected major securities collateral. It should assess if any two or more of its major securities collateral are connected regularly (at least monthly).
- **margin client concentration controls** – an SMF broker should set prudent concentration limits to avoid building up excessive exposure to individual margin clients or groups of connected margin clients. In setting these limits, SMF brokers should consider, among other things, its liquidity profile and capital, the financial situation of the clients, the quality of the underlying collateral, the potential financial impact on it of client defaults, the credit history of the clients, the risk profile of its margin loan portfolio, and the prevailing market conditions.
- **haircuts for securities collateral** – an SMF broker should maintain a list of securities acceptable by it as collateral for margin lending purpose and should apply prudent haircuts percentages to such securities collateral. In reviewing the securities, an SMF broker should consider, among other things, the financial situation of the issuer, historical price volatility of the securities concerned and any adverse news about the issuer or its senior management.
- **margin calls, stopping further advances and further purchases of securities, and forced liquidation** – an SMF broker should prudently set the triggers for margin call, for stopping further advances to, and further purchases of securities by, margin clients, and for forced liquidation of margin clients' securities collateral. These policies should generally be strictly applied.

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- **stress testing** – an SMF broker should conduct stress tests on its excess liquid capital and liquidity regularly (at least monthly) and upon the occurrence of any material adverse market event or securities-specific event. In addition, stress tests should be conducted regularly (at least monthly) for the hypothetical stress scenario of a significant group of connected securities collateral losing all its value.

The New Guidelines require immediate notification to the SFC upon becoming aware of certain instances of non-compliance.

A failure by any SMF broker to comply with any applicable provision of the New Guidelines (a) shall not by itself render it liable to any judicial or other proceedings, but in any proceedings under the SFO before any court, the New Guidelines shall be admissible in evidence, and if any provision set out in the New Guidelines appears to the court to be relevant to any question arising in the proceedings, it shall be taken into account in determining the question; and (b) may cause the SFC to consider whether such failure adversely reflects on the SMF broker's fitness and properness and the need for regulatory action.

Mainland and Hong Kong Stock Connect Mechanism

According to the announcement jointly issued by China Securities Regulatory Commission and the SFC on 10 November 2014, namely the “Announcement regarding the Official Launching of Shanghai-Hong Kong Stock Connect Mechanism Pilot Points”(《關於正式啟動滬港股票交易互聯互通機制試點的公告》), “Memorandum of Cooperation between China Securities Regulatory Commission and the SFC on Strengthening the Supervision and Enforcement under the Shanghai-Hong Kong Stock Connect Project”(《滬港通項目下中國證監會與香港證監會加強監管執法合作備忘錄》) executed on 17 October 2014, “Regulations on the Mainland and Hong Kong Stock Connect Mechanism”(《內地與香港股票市場交易互聯互通機制若干規定》) issued by the China Securities Regulatory Commission on 30 September 2016, and “Shanghai Stock Exchange Measures for the Implementation of Shanghai-Hong Kong Stock Connect”(《上海證券交易所滬港通業務實施辦法》) revised on 7 September 2018 and implemented on 17 September 2018 by the Shanghai Stock Exchange, the Shanghai-Hong Kong Stock Connect Mechanism (i.e. Shanghai-Hong Kong Stock Connect) was officially opened between the Shanghai Stock Exchange and the Stock Exchange on 17 November 2014, which allows investors from Shanghai and Hong Kong to entrust members of the Shanghai Stock Exchange or the HKEX Participants to trade stocks listed on the stock exchange of the other party within a prescribed limit (in terms of transaction value) through the securities trading service companies established either by the Shanghai Stock Exchange or the Stock Exchange at the other party's location. The Shanghai-Hong Kong Stock Connect includes Shanghai Stock Connect and Hong Kong Stock Connect.

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According to the announcement jointly issued by the China Securities Regulatory Commission and the SFC on 16 August 2016, the “Announcement on Matters Relating to Shenzhen-Hong Kong Stock Connect”(《深港通相關事宜的公告》), and “Shenzhen Stock Exchange Measures for the Implementation of Shenzhen-Hong Kong Stock Connect”(《深圳證券交易所深港通業務實施辦法》) revised on 7 September 2018 and implemented on 17 September 2018 by the Shenzhen Stock Exchange, the Shenzhen-Hong Kong Stock Connect Mechanism (i.e. Shenzhen-Hong Kong Stock Connect) was officially opened between the Shenzhen Stock Exchange and the Stock Exchange on 5 December 2016, which allows investors from Shenzhen and Hong Kong to entrust members of the Shenzhen Stock Exchange or the HKEX Participants to trade stocks listed on the stock exchange of the other party within a prescribed limit (in terms of transaction value) through the securities trading service companies established either by the Shenzhen Stock Exchange or the Stock Exchange at the other party’s location. The Shenzhen-Hong Kong Stock Connect includes the Shenzhen Stock Connect and the Hong Kong Stock Connect.

The above provisions clearly stipulate the scope for stocks that can be included and not included in the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect, and require that securities trading service companies respectively established by the Stock Exchange, the Shanghai Stock Exchange and the Shenzhen Stock Exchange to announce the list of stocks of the Shanghai Stock Connect, the Shenzhen Stock Connect and the Hong Kong Stock Connect through their respective designated websites, and monitor the daily usage of trading quota on the Shanghai Stock Connect, the Shenzhen Stock Connect and the Hong Kong Stock Connect on a timely manner, and announce the quota usage on their designated websites.

The above provisions clearly stipulate the trading rules of the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect, the conditions and technical standards for investors participating in the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect, and other requirements for participating in the transaction. Corresponding provisions were also made on the restriction of shareholding that investors should follow when participating in the Shanghai Stock Connect and the Shenzhen Stock Connect transactions.

In addition, the above provisions also set forth the obligations that shall be abided by the stock exchange securities trading service companies when participating Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect and the HKEX Participants in accepting client entrustment. According to the above provisions, unless otherwise stipulated by the China Securities Regulatory Commission, the stock exchange securities trading service companies and securities companies or brokers shall not cooperate with investors to procure orders by means of trading shares through the Mainland and Hong Kong stock market trading mechanism, nor provide any transfer service for stocks traded through the Mainland and Hong Kong stock market trading interconnection mechanism in other places and in any other forms other than the stock exchanges.

HISTORY AND DEVELOPMENT

Introduction

Sinomax Securities, the principal operating subsidiary of our Group, was incorporated in Hong Kong with limited liability on 6 July 2001.

The founders of our business, Mr. Keng and Ms. Yeung, have been the shareholders and directors of Sinomax Securities for over 18 years. As Hong Kong is one of the leading international financial centers in the world, Mr. Keng and Ms. Yeung considered that there would be a high demand for brokerage services and margin financing services in Hong Kong and co-founded Sinomax Securities in July 2001 to take advantage of the business opportunities in the securities industry.

Since the incorporation of Sinomax Securities, Ms. Yeung had been involved in the business of Sinomax Securities and was mainly responsible for business development and overseeing the treasury function of Sinomax Securities. In particular, she had introduced a number of clients to Sinomax Securities through her personal business network and had contributed to the working capital of Sinomax Securities through equity subscriptions and provision of shareholders' loans to support business expansions of Sinomax Securities. Ms. Yeung also oversaw the treasury functions of Sinomax Securities. Since Mr. Ng, the son of Ms. Yeung, joined Sinomax Securities in November 2012, Ms. Yeung had intended as part of her family arrangement that Mr. Ng will succeed her while she takes a less active role in the business. Save as disclosed above, Ms. Yeung will continue to remain as a director of Sinomax Securities upon Listing and her involvement in the business operations of Sinomax Securities will remain unchanged. Ms. Yeung is not in any way prohibited from acting as a director of a listed company in Hong Kong and she has not been the subject of any regulatory concern on her integrity or competence.

At the date of its incorporation, Sinomax Securities had an issued share capital of HK\$10,000,000 divided into 10,000 shares of HK\$1,000 each. Since its incorporation, Sinomax Securities has expanded and gradually increased its issued share capital. As at the Latest Practicable Date, the issued and paid up share capital of Sinomax Securities was HK\$80,000,000 divided into 80,000 shares, of which 48,000 Shares were owned by Mr. Keng and 32,000 Shares were owned by Ms. Yeung, representing 60% and 40 % of the issued share capital of Sinomax Securities, respectively. Mr. Keng and Ms. Yeung financed the capital injections into Sinomax Securities using their personal financial resources.

HISTORY, REORGANISATION AND GROUP STRUCTURE

On 18 February 2002, Sinomax Securities became a HKEX Participant and was registered as a dealer under the then Securities Ordinance. On 18 November 2004, Sinomax Securities obtained a licence to carry out type 1 (dealing in securities) regulated activity under the SFO. On 19 August 2016, Sinomax Securities further obtained licences to carry out type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO. On 12 March 2019, Sinomax Securities obtained a Hong Kong service supplier certificate under Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) in connection with its securities and futures services. For further details relating to the business of Sinomax Securities, please refer to the section headed “Business” in this prospectus.

In December 2015, Sinomax Securities was granted the licence to carry on business as a money lender in Hong Kong under the Money Lenders Ordinance. However, as our Directors intend to focus our resources on developing and expanding our core services of brokerage services, margin financing services and placing and underwriting services, we have not commenced any money lending business and our Directors confirm that we have no plans to develop the money lending business in the future. As a result, Sinomax Securities did not renew the said money lender licence after the said licence expired in December 2016.

Our Group comprises three members, namely our Company, Smart Domain and Sinomax Securities.

Key business milestones

The following table summarises the key milestones of our Group’s business development:

Date	Major development and achievement
July 2001	Sinomax Securities was incorporated in Hong Kong with limited liability
February 2002	Sinomax Securities became registered as a dealer under the then Securities Ordinance, registered its first Stock Exchange Trading Right and became a HKEx Participant
August 2004	Launched online securities trading platform
November 2004	Obtained a licence to carry out type 1 (dealing in securities) regulated activity under the SFO
May 2011	Commenced margin financing business
September 2015	Launched a mobile securities trading platform
August 2016	Obtained a license to carry out type 4 (advising on securities) and type 9 (asset management) regulated activities
March 2019	Obtained a Hong Kong service supplier certificate under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) for securities and futures services

HISTORY, REORGANISATION AND GROUP STRUCTURE

Our subsidiaries

The following table summarises our subsidiaries and their principal business activities as at the Latest Practicable Date:

Name of company	Place of incorporation	Date of incorporation	Principal business activity(ies)
Smart Domain	BVI	1 February 2016	Investment holding
Sinomax Securities	Hong Kong	6 July 2001	Provision of brokerage services, margin financing services, and placing and underwriting services

CORPORATE HISTORY

Our Company

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 7 June 2016, with an authorised share capital of HK\$380,000 divided into 38,000,000 Shares. On the date of incorporation, one nil-paid Share was allotted and issued to the initial subscriber, which was subsequently transferred to Man Chase on the same date at nil paid. On the same date, 99 nil paid Shares were further allotted and issued by our Company to Man Chase. Our Company was registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 8 July 2016.

Upon completion of the Reorganisation, our Company became the holding company of our Group on 22 January 2020, details of which are set out in the paragraph headed “Reorganisation” in this section. The principal business activity of our Company is investment holding.

Sinomax Securities

On 6 July 2001, Sinomax Securities was incorporated in Hong Kong with limited liability. As at the time of its incorporation, Sinomax Securities had an authorised share capital of HK\$100,000,000 divided into 100,000 ordinary shares of HK\$1,000 each. On 11 July 2001, 4,500, 3,000 and 2,500 shares in Sinomax Securities were allotted and issued as fully paid at par to the first subscribers, Mr. Keng, Ms. Yeung and Ms. Kok Siew Chan, respectively. On 23 July 2001, Ms. Kok Siew Chan transferred 2,300 shares in Sinomax Securities to Ms. Chan Ching Mei, Agnes for an aggregate consideration of HK\$2,300,000. Each of Ms. Kok Siew Chan and Ms. Chan Ching Mei, Agnes is an Independent Third Party. Upon completion of the above transaction, Sinomax Securities was owned as to 4,500 shares by Mr. Keng, 3,000 shares by Ms. Yeung, 2,300 shares by Ms. Chan Ching Mei, Agnes, and 200 shares by Ms. Kok Siew Chan, representing 45%, 30%, 23% and 2% of the then issued share capital of Sinomax Securities, respectively.

HISTORY, REORGANISATION AND GROUP STRUCTURE

On 9 November 2002, Sinomax Securities allotted and issued 1,000 shares to Ms. Kok Siew Chan at a subscription price of HK\$1,000 per share. On 18 November 2004, Sinomax Securities further allotted and issued 1,920 shares and 1,280 shares to Mr. Keng and Ms. Yeung respectively for a subscription price of HK\$1,000 per share. On 4 May 2010, Sinomax Securities further allotted and issued 7,143 shares and 4,762 shares to Mr. Keng and Ms. Yeung, respectively for a subscription price of HK\$1,000 per share. As of 4 May 2010, Sinomax Securities was owned as to 13,563 shares by Mr. Keng, 9,042 shares by Ms. Yeung, 2,300 shares by Ms. Chan Ching Mei, Agnes, and 1,200 shares by Ms. Kok Siew Chan, representing approximately 52.0%, 34.6%, 8.8% and 4.6% of the then issued share capital of Sinomax Securities, respectively.

On 8 December 2010, each of Mr. Keng and Ms. Yeung acquired from Ms. Chan Ching Mei, Agnes 1,380 shares and 920 shares of Sinomax Securities at an aggregate consideration of HK\$1,080,000 and HK\$720,000, respectively. The said consideration was determined after arm's length negotiations between the relevant parties with reference to a discount of approximately 22% to the initial acquisition costs of the relevant shares for Ms. Chan Ching Mei, Agnes and was settled by Mr. Keng and Ms. Yeung on 8 December 2010. Mr. Keng and Ms. Yeung decided to acquire the shares of Sinomax Securities held by Ms. Chan Ching Mei, Agnes due to the discount offered on the acquisition of relevant shares and in order to consolidate their control over Sinomax Securities.

On 12 April 2011, each of Mr. Keng and Ms. Yeung acquired from Ms. Kok Siew Chan 720 shares and 480 shares of Sinomax Securities for an aggregate consideration of HK\$563,400 and HK\$375,600, respectively. The said consideration was determined after arm's length negotiations between the relevant parties with reference to a discount of approximately 22% to the initial acquisition costs of the relevant shares for Ms. Kok Siew Chan and was settled by Mr. Keng and Ms. Yeung on 12 April 2011. Mr. Keng and Ms. Yeung decided to acquire the shares of Sinomax Securities held by Ms. Kok Siew Chan due to the discount offered on the acquisition of the relevant shares and in order to further consolidate their control over Sinomax Securities. Upon completion of the above transactions, Sinomax Securities was owned as to 15,663 shares by Mr. Keng and 10,442 shares by Ms. Yeung, representing 60% and 40% of the then issued share capital of Sinomax Securities, respectively.

On 12 October 2015, Sinomax Securities allotted and issued 32,337 shares and 21,558 shares to Mr. Keng and Ms. Yeung, respectively, for a consideration of HK\$1,000 per share.

HISTORY, REORGANISATION AND GROUP STRUCTURE

The following table sets out the details of the transfers as well as the allotment and issue of shares in Sinomax Securities over the period from 23 July 2001 up to the Latest Practicable Date:

Date	Transaction nature	Seller	Buyer/allottee	Number of shares	Consideration/ subscription price HK\$'000
23 July 2001	Transfer	Ms. Kok Siew Chan	Ms. Chan Ching Mei, Agnes	2,300	2,300
9 November 2002	Allotment	–	Ms. Kok Siew Chan	1,000	1,000
18 November 2004	Allotment	–	Mr. Keng	1,920	1,920
18 November 2004	Allotment	–	Ms. Yeung	1,280	1,280
4 May 2010	Allotment	–	Mr. Keng	7,143	7,143
4 May 2010	Allotment	–	Ms. Yeung	4,762	4,762
8 December 2010	Transfer	Ms. Chan Ching Mei, Agnes	Mr. Keng	1,380	1,080
8 December 2010	Transfer	Ms. Chan Ching Mei, Agnes	Ms. Yeung	920	720
12 April 2011	Transfer	Ms. Kok Siew Chan	Mr. Keng	720	563
12 April 2011	Transfer	Ms. Kok Siew Chan	Ms. Yeung	480	376
12 October 2015	Allotment	–	Mr. Keng	32,337	32,337
12 October 2015	Allotment	–	Ms. Yeung	21,558	21,558

Each of the relevant transfers and/or allotment and issue of shares in Sinomax Securities set out in the table above has been properly and legally completed and settled and all applicable regulatory approvals, if any, have been obtained.

From the commencement of the Track Record Period up to immediately prior to the Reorganisation, there were no further changes in the shareholding structure of Sinomax Securities, and Sinomax Securities was owned as to 60% by Mr. Keng and 40% by Ms. Yeung.

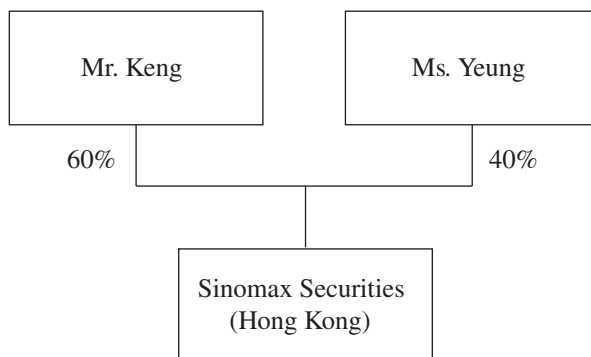
Smart Domain

As part of the Reorganisation, Smart Domain was incorporated in the BVI with limited liability on 1 February 2016. At the time of its incorporation, Smart Domain was authorised to issue a maximum of 50,000 shares of a single class, with a par value of US\$1.00 each, of which the 100 fully paid shares were allotted and issued to our Company on 10 June 2016. Smart Domain is principally engaged in investment holding.

HISTORY, REORGANISATION AND GROUP STRUCTURE

CORPORATE STRUCTURE PRIOR TO THE REORGANISATION

The following chart sets out the shareholding and corporate structure of our Group immediately prior to the Reorganisation, the Share Offer and the Capitalisation Issue.



REORGANISATION

The companies comprising our Group underwent the Reorganisation in preparation for the Listing, pursuant to which our Company became the holding company of our Group. The Reorganisation involved the following major steps:

Incorporation of our Company, Man Chase and Smart Domain

On 15 December 2015, Man Chase was incorporated in the BVI with limited liability. At the time of its incorporation, Man Chase was authorised to issue a maximum of 50,000 shares of a single class, with a par value of US\$1.00 each. On 18 May 2016, 60 fully paid shares were allotted and issued to Mr. Keng and 40 fully paid shares were allotted and issued to Ms. Yeung.

On 1 February 2016, Smart Domain was incorporated in the BVI with limited liability. At the time of its incorporation, Smart Domain was authorised to issue a maximum of 50,000 shares of a single class, with a par value of US\$1.00 each. On 10 June 2016, 100 fully paid shares were allotted and issued to our Company.

On 7 June 2016, our Company was incorporated in the Cayman Islands with limited liability. At the time of its incorporation, our Company had an authorised share capital of HK\$380,000 divided into 38,000,000 Shares with a par value of HK\$0.01 each. On the date of incorporation, one nil paid Share was allotted and issued to the initial subscriber, which was subsequently transferred to Man Chase on the same date at nil paid. On the same date, 99 nil paid Shares were further allotted and issued by our Company to Man Chase.

Share swap in relation to Sinomax Securities

On 22 January 2020, Mr. Keng and Ms. Yeung entered into an agreement with our Company for sale and purchase of shares in Sinomax Securities pursuant to which Mr. Keng and Ms. Yeung transferred the entire issued share capital of Sinomax Securities to Smart Domain (as a nominee of our Company) for the consideration of HK\$228,797,000, which was satisfied by (i) our Company, at the direction of each of Mr. Keng and Ms. Yeung, allotting and issuing 9,900 new Shares, all credited as fully paid, to Man Chase (as a nominee of Mr. Keng and Ms. Yeung); and (ii) the crediting of 100 nil-paid Shares, registered in the name of Man Chase as fully paid.

As Sinomax Securities is an entity licensed with the SFC, prior approval of the SFC is required in respect of each of Mr. Keng, Ms. Yeung, Man Chase, our Company and Smart Domain becoming a substantial shareholder (as the term is defined in the SFO) of Sinomax Securities. On 15 July 2019, Sinomax Securities applied to the SFC for such approvals. The said application is currently pending and the relevant approval is expected to be obtained by Listing. The above transactions involving the sale and purchase of shares in Sinomax Securities were properly and legally completed and settled on 22 January 2020 and all applicable regulatory approvals have been obtained. Upon completion of the above transactions, Sinomax Securities became the wholly-owned subsidiary of Smart Domain.

Increase of authorised share capital of our Company

On 22 January 2020, the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares to HK\$50,000,000 divided into 5,000,000,000 Shares by the creation of an additional 4,962,000,000 Shares which rank *pari passu* in all respects with the existing Shares.

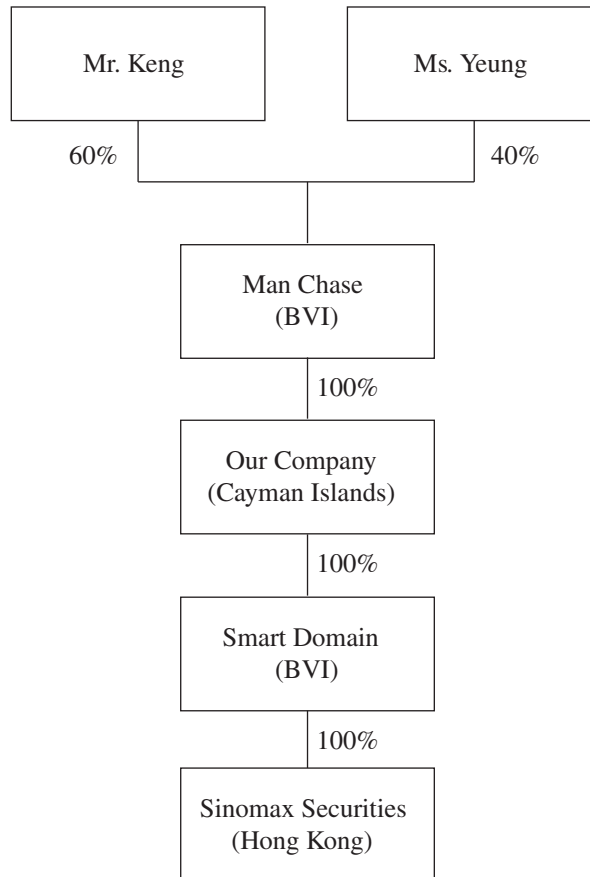
Capitalisation Issue

Conditional upon the share premium account of our Company having sufficient balance or otherwise being credited as a result of the issue of the Offer Shares by our Company pursuant to the Share Offer, our Company will allot and issue a total of 749,990,000 Shares credited as fully paid at par to the holders of the Shares whose names appear on the register of members of our Company immediately prior to the Listing Date in proportion to their existing shareholdings in our Company by capitalising the sum of HK\$7,499,000 from the share premium account of our Company. The Shares allotted and issued pursuant to the above Capitalisation Issue will rank *pari passu* in all respects with the existing issued Shares.

HISTORY, REORGANISATION AND GROUP STRUCTURE

CORPORATE STRUCTURE IMMEDIATELY AFTER COMPLETION OF THE REORGANISATION

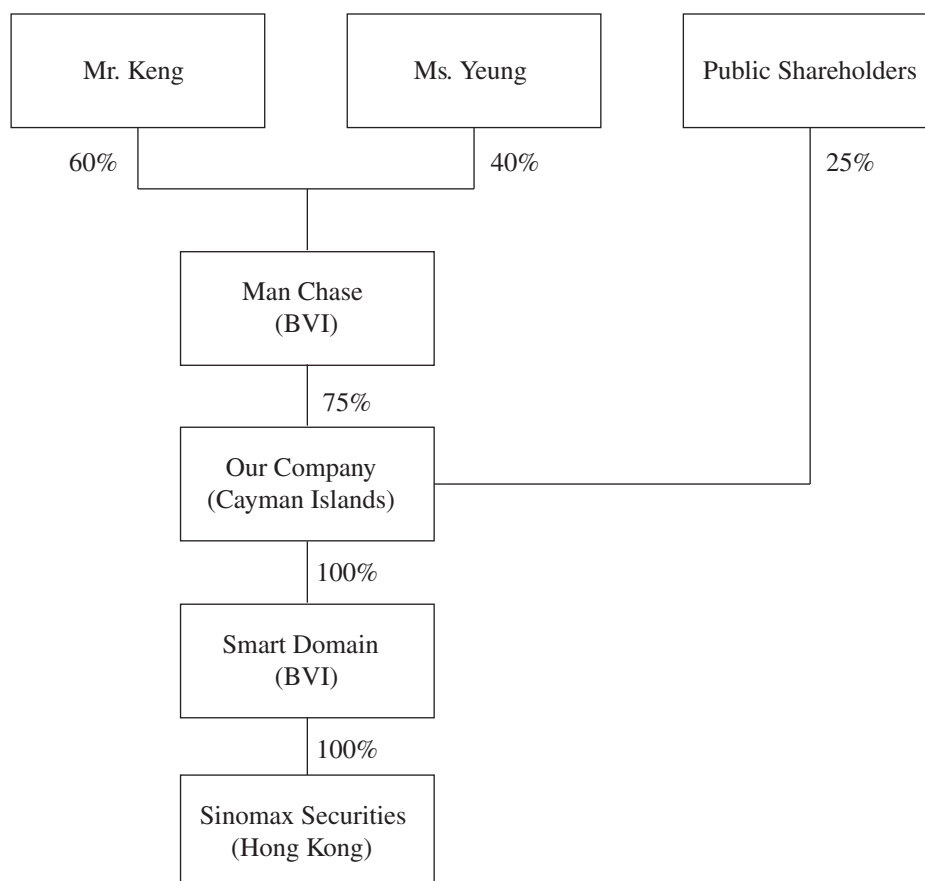
The following diagram sets out the shareholding and corporate structure of our Group immediately after completion of the Reorganisation but before completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued by our Company pursuant to the exercise of the Over-allotment Option or the exercise of any options which may be granted under the Share Option Scheme):



HISTORY, REORGANISATION AND GROUP STRUCTURE

CORPORATE STRUCTURE IMMEDIATELY AFTER COMPLETION OF THE SHARE OFFER AND THE CAPITALISATION ISSUE

The following chart sets out the shareholding and corporate structure of our Group immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued by our Company pursuant to the exercise of the Over-allotment Option or the exercise of any options which may be granted under the Share Option Scheme):



OVERVIEW

We are a provider of financial services in Hong Kong principally engaged in the provision of securities trading services (including brokerage services and margin financing services) and placing and underwriting services.

We provide services to our clients through our operating subsidiary, Sinomax Securities, which is licensed with the SFC to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities in Hong Kong. Sinomax Securities holds two Stock Exchange Trading Rights, is a participant of HKSCC and has been a Trade-through Exchange Participant since September 2018.

We mainly provide the following services to our clients through Sinomax Securities:

Securities trading services

- (a) **brokerage services:** we provide securities dealing and brokerage services to our clients. We act as an intermediary between buyers and sellers of securities listed on the Main Board and GEM of the Stock Exchange and facilitate our clients' trading of securities listed on overseas stock exchanges in return for brokerage commission income.
- (b) **margin financing services:** we offer margin financing services to our clients who wish to purchase securities on a margin basis. We provide margin financing to clients for the purchase of securities on the secondary market as well as IPO financing to clients for the subscription of shares offered under IPOs, and derive interest income from the provision of margin loans.

Placing and underwriting services

We provide placing and underwriting services by acting as (i) bookrunner, lead manager or underwriter of listing applicants in IPOs; and (ii) placing agent of listed companies in connection with their issuance or sale of securities, in return for underwriting and/or placing commission income. We also charge investors a brokerage commission when they subscribe for or acquire securities in respect of offerings of listed issuers who engaged us to provide placing and underwriting services in respect of the relevant securities.

Investment advisory services

We act as investment advisor to our clients, and provide them with (i) investment advice incidental to our securities trading services, which we provide free of charge; and (ii) investment consultancy services (whereby we may be required to meet with clients to discuss investment-related matters upon request) and issue monthly research reports in return for a fee.

Our clients in respect of our brokerage and margin financing services are mainly retail clients who reside in Hong Kong or the PRC according to the declarations in their accounts opening documentation. Our clients in respect of our placing and underwriting services are mainly companies listed or to be listed on the Stock Exchange, bookrunners, lead managers, underwriters or placing agents in respect of IPOs and secondary offerings.

We have been actively seeking growth opportunities through the expansion of our service offerings to align with the diversifying needs of our clients. As part of such strategy, we intend to allocate a portion of the net proceeds from the Share Offer to (i) establish a discretionary account management team comprising professionals qualified to offer discretionary account management services to our clients; and (ii) develop our China Connect business by applying to the HKEX for registration as a China Connect Exchange Participant.

Our revenue amounted to approximately HK\$35.7 million, HK\$56.7 million, HK\$65.3 million and HK\$25.5 million for the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, respectively, of which (i) approximately 46.7%, 54.9%, 32.7% and 27.5% were derived from our provision of brokerage services, respectively; (ii) approximately 29.6%, 19.8%, 20.5% and 21.1% were derived from our provision of margin financing services, respectively; (iii) approximately 22.0%, 22.7%, 44.2% and 49.9% were derived from our provision of placing and underwriting services, respectively; and (iv) approximately 1.7%, 2.6%, 2.7% and 1.5% were derived from investment advisory and other ancillary services (including nominee and scrip handling), respectively.

COMPETITIVE STRENGTHS

Our Directors believe that the following competitive strengths contributed to our continued success and potential for growth as a financial service provider:

Our reputation as a reliable and quality financial and securities service provider in Hong Kong

Sinomax Securities, our operating subsidiary, has an operating history of over ten years during which time it has established a reputation as a reliable and quality financial service provider in Hong Kong.

Over the years, we have continued to develop and refine our business model (including the development and maintenance of an online trading platform and mobile application through an external service provider for easier access to the securities market) as well as diversifying our service offerings in order to better serve the needs of our clients. Our Directors believe that over the years, Sinomax Securities has become a recognised brand within the securities industry and this is largely attributable to a number of factors including, but not limited to, (i) our ability to provide personalised services through our understanding of our clients' needs in the constantly evolving financial landscape; (ii) the reasonableness and competitiveness of fees and commissions that we charge for our services; and (iii) the reliability of our operating systems and qualified staff capable of satisfying our clients' needs. Our Directors believe that these attributes will continue to assist us in growing our client base.

Established strong relationships with our clients and a stable client base

We benefit from our extensive business networks and client contacts which have over the years assisted us in gaining visibility with and access to our target clients. Through such networks and contacts, we have established a solid and stable client base which has continued to grow.

Our Directors believe that the growth of our client base is not materially attributable to the use of price competition measures (through the offering of monthly-fixed charge plans, commission ceiling plans or similar measures) or the undertaking of aggressive advertising or marketing campaigns, but through fostering and maintaining relationships with our clients (developed through the provision of reliable, quality and personalised services by our experienced AEs and staff over the years), building our brand's reputation and understanding our clients' needs and requirements. Our Directors believe that, through maintaining good relationships with our existing clients, we have, to a material extent, benefited from client referrals through the word-of-mouth of our clients who were satisfied with our services.

Experienced and competent management team and professional staff

We have a team of experienced and competent professionals with substantial expertise in formulating business strategies, monitoring and supervising compliance matters, overseeing financial condition and performance, and managing and supervising the daily operations of our Group with an aim to provide services to our clients in a reliable, efficient and professional manner.

In particular, one of our executive Directors, Mr. Sy, has over ten years experience in the financial services industry including, but not limited to, experience in the provision of brokerage services, compliance and risk management. Mr. Lam, a member of our senior management and our responsible officer, also possesses over ten years of experience in the financial services industry. Leveraging on their experience and networks in the financial industry, we believe that we are able to respond promptly and appropriately to the ever-changing market conditions and environment as well as continue to expand our client base. For details of the biographies of our management team, please refer to the section headed "Directors and senior management" in this prospectus.

Further, we have an experienced team of licensed representatives who are responsible for carrying out our regulated activities, together with our professional staff who carry out requisite business functions (including compliance, risk management, finance, accounting and settlement). Over two-thirds of our licensed representatives have been licensed with the SFC to carry on relevant regulated activities for over eight years, and over one-third of them have been accredited to Sinomax Securities for over five years. Together with our senior management team, our staff enables us to implement our business strategies, provide quality services to our clients, manage our compliance and risks, identify and capture business opportunities, maintain relationships with existing clients, and procure prospective clients.

The complementary nature of our services allows us to create synergies among our different lines of services and generate diversified and stable sources of revenue

We believe that the complementary nature of our different lines of businesses creates synergy and enables us to generate diversified and stable source of income. For example:

- (i) we are able to leverage on our existing pool of securities trading clients when acting as bookrunner, lead manager, underwriter or placing agent in placing and underwriting engagements in that our securities trading services act as a channel for procuring suitable investors to subscribe for securities offered under placing and underwriting projects undertaken by us. As such, our placing and underwriting business recorded significant growth over the Track Record Period;
- (ii) with the growth of our placing and underwriting business, we believe that there will be growing demand for our securities trading services from clients who would like to benefit from trading opportunities gained through access to allocations granted to us (for subscriptions and acquisitions of securities) under placing and underwriting projects undertaken by us; and
- (iii) the margin financing services we provide to our clients by their very nature stimulate securities brokerage activities as margin clients are required to trade through their margin accounts with us when utilising margin facilities granted to them to purchase securities on a margin basis. Also, clients who are satisfied with our securities brokerage services are generally more inclined to apply for our margin loans to fund their trading activities.

Streamlined and efficient organisational structure

Our Group has a streamlined organisational structure whereby all decisions in relation to the execution and settlement of client orders in respect of our brokerage and margin financing services will be supervised by our responsible officers. We believe that this facilitates efficient execution and settlement of client orders. Our Directors consider that our competitive edge lies in our simple and efficient organisational structure, which is ideal for our scale of operations. We believe that such a lean and streamlined structure also promotes a closer working relationship among our staff and enhances our ability to maintain a good relationship with our AEs.

Furthermore, all of our AEs in respect of our brokerage and margin financing services are self-employed; they are engaged on a commission basis (i.e. entitled to commissions from the trades of those clients referred by them to our Group and managed by them) and are not entitled to contractual fixed remuneration, such as fixed monthly salary or statutory employee benefits. Our Directors believe that this allows us to control our staff costs, which is especially important during periods of market downturn. Further, our Directors believe that, as our AEs are remunerated on the basis of the volume of trades carried out by the clients referred and managed by them, they are naturally incentivised to maintain good business relationships with their clients and to expand their client base by soliciting new clients through referrals or their networks.

BUSINESS STRATEGIES**Opportunities for growth**

Our Directors believe that our business is currently presented with the following opportunities which are important to our growth:

- (i) the GDP and average disposable income per capita in Hong Kong and the PRC have continued to grow, and coupled with the financial integration between the key capital market in the Guangdong – Hong Kong – Macau Greater Bay Area (the “**GBA**”), demand for the financial services (including equity investment and financing) in the financial service sectors in Hong Kong, Macau and the nine municipalities in the Pearl River Delta (the “**PRD**”) region, is expected to grow;
- (ii) the GBA Plan (formerly known as PRD Action Plan) has led to greater connections between Hong Kong and other cities in the GBA, which has in turn driven the demand for banking, financing, placing and underwriting services and asset management services in Hong Kong;
- (iii) the further integration of economics and bilateral opening of capital market between Hong Kong and the PRC (such as the launch of the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect in November 2014 and December 2016, respectively) have promoted cross-boundary investments between Hong Kong and the PRC, and in particular, they have increased the amount of southbound investments into Hong Kong as the PRC investors continue to seek access to offshore investment opportunities and wealth diversification;

- (iv) several amendments to the Listing Rules which took effect in 2018, are expected to attract (a) listings of pre-revenue biotech issuers that do not meet financial eligibility tests under the Listing Rules; (b) listings of companies with weighted voting right structures; and (c) more PRC and international companies that wish to pursue secondary listing in Hong Kong. With the new listing regime in effect, the Stock Exchange recorded the largest number of IPOs globally in 2018, with prominent companies such as China Tower Corporation Limited (HKEX stock code: 788) and Xiaomi Corporation (HKEX stock code: 1810) listing in Hong Kong; and
- (v) the increasing use of mobile technology, big data, cloud computing and artificial intelligence by licensed securities intermediaries will provide more innovative products with enhanced service capabilities.

Due to the above factors, according to the Ipsos Report:

- (i) there has been an increase in demand for placing and underwriting services in Hong Kong and total revenue generated from the provision of such services increased from approximately HK\$6.4 billion in 2013 to approximately HK\$10.2 billion in 2018 (representing a CAGR of approximately 9.9%, with particularly strong year-on-year growth of approximately 33.7% growth in 2018 driven by favourable policies);
- (ii) the equity market is expected to grow steadily and this should give rise to sustainable demand for placing and underwriting services; with total revenues generated from such services expected to continue to increase from approximately HK\$11.0 billion in 2019 to approximately HK\$13.2 billion in 2022 (representing a CAGR of approximately 6.5%);
- (iii) due to promising future outlook of the securities market which is driven by favourable policies and emerging sectors (including technology, telecommunications and biotechnology), there should be a sustained increase in securities trading and margin financing activities, whereby turnover from securities trading is expected to increase at a CAGR of approximately 8.2% from 2019 to 2022;
- (iv) the demand for margin financing services is closely linked to the performance of the equity market, and has experienced a substantive increase in terms of active margin client numbers (which has grown at a CAGR of approximately 25.2% from 2013 to 2018 supported by a growing stock market), and the amounts receivable from margin clients in Hong Kong also increased by a CAGR of approximately 16.1%, supported by increasing number of listed companies and growing southbound investor interest in the Hong Kong stock market;
- (v) as securities trading continues to be active, there would be increasing demand for more value-added services (including discretionary account management and securities advisory services) from brokerage service providers that would assist investors in making investment decisions towards better investment opportunities, and the provision of such value-added services is important for brokerage service providers to seize growth opportunities; and

- (vi) whilst demand for securities trading services has gradually increased, competition among securities brokerage firms remain intense, and to remain competitive, some brokerage firms have invested in IT infrastructure as well as related human resources (including IT, compliance and risk controls) given the increased popularity and preference of using electronic and online means for executing trade orders over the years.

Our business strategies to capitalise on opportunities

We intend to capitalise on the opportunities described above as our business objective is to become one of the leading financial service providers in Hong Kong through the following means:

Strengthening our placing and underwriting business

Over the Track Record Period, our placing and underwriting business became one of our core business segments, with revenue generated from this segment experiencing significant growth, driven by strong demand from clients who our Directors believe were satisfied with our services.

Our Directors believe that our Group is well-positioned to capitalise on opportunities arising from sustainable growth in the equity market by (i) extending our industry networks; in particular with underwriters and placing agents; (ii) exploring business opportunities for acting as underwriter and placing agent in respect of IPOs and secondary offerings; in particular, to take up more significant values or to participate in a more significant manner (in terms of underwriting and placing amounts) in respect of project engagements; and (iii) expanding our placing and underwriting team through the recruitment of experienced AEs. As such, we intend to recruit more AEs to procure and solicit new clients and provide customer services to them.

Expanding our securities margin financing business

Over the Track Record Period, there has been an increase in demand from our clients for our margin financing business, which is in line with the observations in the Ipsos Report regarding demand for such services in Hong Kong. However, the SFC has recently issued the Guidelines for Securities Margin Financing Activities (to take effect from October 2019) pursuant to which licensed brokers are required not to over-leverage itself in conducting margin financing activities. In particular, the margin loans-to-capital multiple benchmark should be restricted to five or less, depending on the quality of the margin loan portfolio (meaning that a licensed broker may not provide margin loans exceeding five times its capital (including shareholders' funds and any outstanding subordinated loans approved by the SFC)). During the Track Record Period, the range of the highest and lowest margin loans-to-capital ratio for the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, were 36%-81%, 43%-73%, 41%-91% and 62%-91%, respectively, since the margin loans-to-capital ratios were all under 500%, our Group's margin loans-to-capital ratio was in compliance with such SFC guidelines.

As income derived from our margin financing business has continued to contribute materially to our revenue and demand for our margin financing services has continued to grow, in light of the more stringent rules on margin loans-to-capital ratio as described above, our Directors consider that it would be commercially sensible for us to expand our margin book (i.e. increase the amount of share capital which may be utilised for the purpose of granting margin loans) to support and finance the securities trading activities of our clients on a leverage basis. Our Directors believe that such expansion of our margin book could enhance our capability on a leveraged basis in terms of size and volume of margin loans we may be able to extend to our clients, and boost our profitability.

As such, it is expected that part of the net proceeds of the Share Offer will be used to facilitate our provision of margin loans to our clients, which will be secured by pledged securities. Despite an expansion of liquidity, we will regularly review the quality of securities pledged by our clients, update margin ratios and communicate margin requirements to our clients accordingly as well as adopt prudent risk management policy to manage related risks.

Enhance our service offerings

We aim to sustain our existing client base by maintaining our clients' confidence in our services and achieving growth through our marketing efforts and client referrals. To achieve these objectives in the face of keen competition, our Directors believe that it is important to continue to improve the services which we provide to our clients. In this regard, we intend to:

- (i) develop our asset management business by establishing our discretionary account management team (comprising initially of a team head and two account executives) to provide discretionary account management services for our clients. Our Directors believe that the provision of such value-added services would assist our brokerage clients and prospective investors to gain access to better investment opportunities through professional and experienced investment managers, without having to exert significant time and efforts in carrying out investment analysis and making investment decisions. The demand for such services is also substantiated by the Ipsos Report.

Our Directors believe that the development of our discretionary account management business will not only enhance our service offering to our clients, but will also broaden our sources of income in the long term (through the generation of monthly management fees and performance-based incentives and income).

- (ii) recruit qualified research analysts to support the investment decision making processes of the discretionary account management team and support the expected growth in our placing and underwriting business.

Our Directors believe that the provision of the above value-added services would enable us to better serve existing clients as well as to potentially attract new clients.

Develop our China Connect business

According to the Ipsos Report, the launch of the China Connect was able to cater the increasing demand for offshore investments of PRC investors, and drive the demand for intermediary services of the securities and futures industry in Hong Kong and the PRC. In particular, the monthly market turnover of the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect experienced an overall increase since their official launch, and reached RMB109,219 million and RMB58,761 million in May 2019, respectively. We intend to seize the opportunity arising from such growing market turnover and increasing southbound trading and apply to the HKEX for registration as a China Connect Exchange Participant. Our Directors consider that this will in turn expand our service offerings to our brokerage clients, which will provide us with an additional source of revenue, and is expected to further generate demand from clients for margin loans for securities trading purposes.

Further enhance our IT systems

The Company has been maintaining and developing an online trading system named “i-Trade” and its related mobile application. According to the Ipsos Report, the establishment and consistent upgrading of the “i-Trade” system have granted our Company a competitive edge over the other brokerage service providers. The “i-Trade” online trading system provides a package of user-friendly, high-speed and secured solutions, including but not limited to (i) securities account management; and (ii) real-time quotes, mainly to facilitate our clients in acquiring real-time stock market information and placing investment orders in an efficient and secured way.

With our ongoing objective to remain competitive and to facilitate our proposed commencement of our China Connect services, we intend to (i) upgrade and enhance both our front office and back office trading systems (including our online trading platform and mobile application); (ii) subscribe to a new integrated system comprising both portfolio management and risk management functions, including but not limited to features such as managing security, redundancy, disaster recovery and database administration as well as providing market data (such as corporate actions, massive correlation, dividend tables and volatility datasets); (iii) subscribe to a new clients’ relationship management system with the aim of enhancing client satisfaction; (iv) subscribe to a new business continuity planning service (which includes data management and cloud storage archiving) and co-location service as a back-up workplace in case there is any disruption to our office; and (v) subscribe to the Bloomberg Terminal to enhance our analytical and research capabilities to support our asset management and placing and underwriting services.

Our Directors believe that the continued enhancement of our IT systems and infrastructure and the optimising of IT resources are important for fostering our business growth.

Client survey to rationalise our business strategies

In May 2019, our Group distributed a client survey questionnaire to all its existing clients with a view of gaining an understanding as to whether our business strategies to capitalise on perceived opportunities and related expected expenditures could be properly supported by client feedback. The findings of the survey from respondents (169 in total) ^(note) were:

- (i) approximately 72.5% of the respondents indicated that they would be supportive of plans of our Group to expand its margin book for the purpose of bolstering its margin financing services;
- (ii) approximately 45.3% of the respondents would potentially be interested in procuring discretionary account management services from our Group if such services were to be provided and related fees were reasonable;
- (iii) approximately 46.2% and 32.0% of the respondents indicated that reliability and security and speed of trade execution were important attributes of an online securities trading platform respectively, and approximately 89.6% of the respondents would support an upgrade or further customisation of our online trading platform and IT infrastructure or capability; and
- (iv) approximately 40.4% of the respondents would be interested in receiving research reports and periodical updates and/or attending investment seminars, trainings and/or events if these were to be made available to them.

Note: Surveys which were considered defective, such as those lacking client signatures, or where the relevant client signatures did not match the signature in corresponding client opening documentation, were excluded. The results below refer to responses received in respect of respondents who provided a response to the relevant questions raised only.

Our Directors believe that the client survey substantiates our belief that the pursuit of our current business strategies in capitalising opportunities (which are apparent to our clients) would assist us to better serve our existing clients, potentially attract new clients and would be beneficial to our business as a whole.

OUR BUSINESS MODEL**Overview**

We are a provider of financial services in Hong Kong principally engaged in the provision of securities trading services (including brokerage services and margin financing services), placing and underwriting services to our clients. We also provide, to a considerably lesser extent in terms of revenue, investment advisory services to our clients.

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Over the Track Record Period, we generated revenue principally from (i) the provision of brokerage service pursuant to which we charged our brokerage clients for execution and/or facilitating the trading of securities on the Stock Exchange and overseas markets, which attributed to approximately 46.7%, 54.9%, 32.7% and 27.5% of our total revenue for the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, respectively; (ii) the provision of margin financing services pursuant to which we derived interest income from the provision of margin loans to our margin clients, which attributed to approximately 29.6%, 19.8%, 20.5% and 21.1% of our total revenue for the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, respectively; and (iii) the provision of placing and underwriting services whereby we charged placing and underwriting commission, which attributed to approximately 22.0%, 22.7%, 44.2% and 49.9% of our total revenue for the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, respectively. We also derived an insignificant amount of revenue from the provision of monthly research reports and investment consultancy services to our clients (in return for prescribed monthly fees) as well as default interest, which we charge our brokerage clients who fail to settle trades in a timely manner. We did not charge our clients for investment advice which we provide incidental to our securities trading services.

(A) Securities trading services

Our securities trading services mainly comprise brokerage services and margin financing services. The table below sets out the breakdown of the revenue generated from our Group's securities trading services during the Track Record Period:

	For the year ended 31 March						For the four months ended	
	2017		2018		2019		31 July 2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Securities trading services								
Commission and brokerage income derived from securities dealing in:								
– market in Hong Kong (Note 1)	16,634	61.1	30,753	72.6	21,258	61.3	6,984	56.4
– markets outside Hong Kong (Note 2)	17	0.1	378	0.8	67	0.1	17	0.1
Interest income from:								
– margin clients (Note 3)	9,891	36.3	10,293	24.3	12,826	37.0	5,247	42.4
– cash clients (Note 4)	676	2.5	958	2.3	544	1.6	136	1.1
Total	<u>27,218</u>	<u>100</u>	<u>42,382</u>	<u>100</u>	<u>34,695</u>	<u>100</u>	<u>12,384</u>	<u>100</u>

Notes:

1. Commission and brokerage income derived from dealing in securities listed in Hong Kong represent the brokerage commission from executing trades in respect of securities listed on the Stock Exchange.
2. Commission and brokerage income derived from dealing in securities listed in markets outside Hong Kong represent the brokerage commission from facilitating the trading of securities listed in the United States and Philippines.
3. Interest income from margin clients represents the interest income derived from the provision of margin loans as part of our margin financing services.
4. Interest income from cash clients represents the interest income derived from clients' failure to settle trades executed through us.

(i) Brokerage services

We conduct our brokerage services through our operating subsidiary, Sinomax Securities, which is licensed under the SFO to carry on type 1 (dealing in securities) regulated activity as defined under the SFO.

Our product range

The types of securities which may be traded through our brokerage services include listed securities which we consider suitable for our clients based on their investment experience and/or preference. These include:

- (a) listed shares, derivative warrants, callable bull/bear contracts and other derivative products listed on the Stock Exchange; and
- (b) listed shares and bonds listed on overseas stock exchanges.

We also facilitate subscriptions to IPOs and secondary placings of Hong Kong issuers who engage our placing and underwriting services.

We are a HKEX Participant with requisite trading rights which allow us to execute trades, as an intermediary, of securities listed on the Stock Exchange.

In order to facilitate the trading by our clients of securities listed on overseas stock exchanges, we have established arrangements with various overseas brokers (being Independent Third Parties) who possess requisite trading rights with the relevant overseas stock exchanges which enable us to arrange relevant trades through them.

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The table below sets out a breakdown of brokerage commission we generated (by product type) over the Track Record Period:

Product type	For the year ended 31 March						For the four months ended 31 July 2019	
	2017		2018		2019		2019	
	Revenue HK\$'000	%	Revenue HK\$'000	%	Revenue HK\$'000	%	Revenue HK\$'000	%
Shares	15,606	93.7	30,671	98.5	21,111	99.0	6,953	99.3
Derivatives	1,045	6.3	460	1.5	147	0.7	31	0.5
Bonds	—	—	—	—	67	0.3	17	0.2
Total	<u>16,651</u>	<u>100</u>	<u>31,131</u>	<u>100</u>	<u>21,325</u>	<u>100</u>	<u>7,001</u>	<u>100</u>

Methods for placing of trading orders

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 accounts and margin accounts. Cash accounts allow our clients to purchase securities with available funds or credit in his account and margin accounts allow our clients to carry out margin trading.

Trade orders can be placed by clients either (i) through our online trading platform or through our mobile application which we make available to them, both of which are serviced by a service provider who is an Independent Third Party; (ii) through our staff dealers or designated AEs via recorded telephone lines; or (iii) on-site at our office premises by submitting an order ticket. Please refer to the paragraph headed “Our operations – A. Securities trading services – (b) Brokerage business – Order taking process” in this section for further details.

Our brokerage clients

As at 31 March 2017, 2018, 2019 and 31 July 2019, we had 1,493, 1,622, 1,743 and 1,778 securities brokerage clients, respectively, of which 374, 414, 389 and 243 were active clients, respectively.

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During the Track Record Period, our active clients mainly comprised retail clients and corporate clients (including local enterprises and corporations). The following table sets out the breakdown of securities brokerage revenue contributed by the type of client during the Track Record Period:

	For the year ended 31 March						For the four months ended 31 July 2019	
	2017		2018		2019		2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Retail clients	27,454	98.7	41,558	96.0	33,705	93.1	11,771	92.3
– active clients	24,938	89.7	40,538	93.6	33,629	92.9	10,455	82.0
– inactive clients	2,516	9.0	1,020	2.4	76	0.2	1,316	10.3
Corporate clients	353	1.3	1,756	4.0	2,502	6.9	982	7.7
– active clients	344	1.2	1,705	3.9	1,891	5.2	663	5.2
– inactive clients	9	0.1	51	0.1	611	1.7	319	2.5
Total	<u>27,807</u>	<u>100</u>	<u>43,314</u>	<u>100</u>	<u>36,207</u>	<u>100</u>	<u>12,753</u>	<u>100</u>

Although our inactive clients have not recorded any trading activity in the immediate preceding twelve months period, we are still able to generate revenue from them by charging them interests (including default interests arising from cash clients who fail to settle trades on a timely manner and interests arising from outstanding margin loans of margin clients), scrip fees, dividend collection fees and other handling fees for various “non trade-related” services.

Our staff structure

All trade orders placed by our clients are managed and executed by our AEs or staff dealers and supervised by our responsible officers directly responsible for overseeing our securities brokerage services.

Our responsible officers and staff dealers are responsible for handling the opening of securities accounts of Sinomax Securities including House Accounts and Referred Accounts.

Our staff dealers are full-time employees of Sinomax Securities and are entitled to a fixed monthly salary, statutory employee benefits as well as a portion of the brokerage commission generated from trades in Referred Accounts of clients referred by them.

Our AEs are mainly responsible for serving and handling the Referred Accounts under their own portfolio. Our AEs are self-employed rather than employees of Sinomax Securities, and are engaged on a commission basis (i.e. entitled to a portion of commissions generated from Referred Accounts of clients sourced and referred to us exclusively by them), and are not entitled to contractual fixed remuneration such as fixed monthly salary or statutory employee benefits. Our Directors believe that the engagement of AEs on a self-employed basis is in line with industry practice, and enables us to broaden our business network, reach out to more potential clients whilst minimising staff costs in a relatively lean staff structure. Since their remuneration is directly correlated to the volume of transactions carried out in the Referred Accounts managed by them, our Directors consider that they are naturally incentivised to sustain and grow their client base in line with the business interests of our Group.

Brokerage commission we charge for executing and/or arranging the execution of trades

We act as an intermediary between buyers and sellers of securities listed on the Main Board and GEM of the Stock Exchange and charge a brokerage commission for executing trade orders on behalf of our clients. We also charge brokerage commission in connection with dealing in securities (namely, subscriptions to IPOs and secondary placing of listed issuers) which we facilitated through our placing and underwriting services.

In order to gain access to securities trading on overseas stock exchanges in which we do not have any trading right, we have entered into arrangements with various brokerage firms, each being an Independent Third Party, who have requisite trading rights and/or being a trading participant of overseas stock exchanges. We maintain a client trading account with each of these overseas brokers, and when our clients place trade orders in respect of securities on those overseas stock exchanges, we will, on behalf of our clients, place back-to-back orders through our trading account maintained with the overseas broker concerned, subject to the client account having sufficient funds for executing the trade orders. For trades carried out through overseas brokers, the overseas brokers will charge brokerage fees and disbursements including trade fees charged by the relevant stock exchanges for executing the trade orders. The brokerage commission we charge our clients for an executed trade will include the total fees charged by the overseas brokers, together with a brokerage commission which we will charge for arranging the trade through the overseas brokers. The income derived from brokerage of trades in overseas markets was insignificant over the Track Record Period, representing approximately 0.1%, 0.7%, 0.1%, and 0.1% respectively, of our total revenue in the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, respectively while the total revenue we derived from brokerage of trades on the Stock Exchange for the same period was approximately 46.6%, 54.2%, 32.6% and 27.4% of our total revenue in the respective periods.

In addition to brokerage commissions we charge our clients for trades executed through us, we also charge default interest (which accrues on a daily basis) on amounts owed to us by clients who have executed a trade but failed to settle the trade within the T+2 period for securities settlement as prescribed by the rules of the HKSCC (or such period within which trades on overseas stock exchange(s) are required to be settled in respect of trades arranged through overseas broker(s)).

Our pricing philosophy and policy

Since 1 April 2003, minimum brokerage rates in respect of securities trading in Hong Kong have been deregulated. Therefore, the amount of brokerage fees charged by brokerage firms are subject to market forces and have become susceptible to downward pressure from time to time. Under this more competitive commission regime, competition in the securities brokerage industry has been vigorous and some securities brokerage firms have adopted aggressive pricing strategies to seize opportunities to enlarge their client base and expand their market coverage. It was observed that price competition among brokerage firms has resulted in a decrease in brokerage commission rates in Hong Kong in recent years.

The major reason for further competition in the securities industry was mainly due to market saturation as there have been an increasing number of brokerage firms entering into the market (including large multinational financial institutions such as banks and investment banks with a global network and local presence in Hong Kong, as well as from small and medium-sized local financial services firms). We would therefore need to compete against our competitors who may have a larger client base, greater brand recognition in the market, more human and financial resources, ability to offer a wider range of services, more advanced technology and lean structures to squeeze pricing, have more established networks and business relationships and/or have longer operating history than that of our Group. The risks arising from such competition (rather than direct price competition) have already been included in the section headed “Risk Factors” of this prospectus.

While we make every effort to compete effectively with other market players, we generally do not, and do not intend to, participate in price competition or offer plans (such as monthly-fixed-charge plans or commission ceiling plans) to remain competitive. Given that we do not generally engage in direct price competition (including the adoption of aggressive pricing strategies such as providing price ceiling plans etc.), our Directors are of the view that direct price competition is not a material risk to our brokerage business and profitability but rather differentiates ourselves from our competitors through our proven track record, strong relationships with clients, experienced management team and competent team of licensed representatives, diverse lines of services and streamlined and efficient organisational structure. Therefore, we make efforts to compete effectively through, *inter alia*, understanding our clients’ needs, delivering quality services to clients through suitably qualified and experienced staff, and maintaining an efficient and lean cost structure.

Due to the aforesaid reasons, we do not necessarily set the lowest price offered in the market in determining the brokerage commission we charge in respect of House Accounts. Rather, the brokerage commission we charge is based on *inter alia*, (i) the brokerage commission charged by securities brokerage firms we consider as competitors who provide a similar quality of services as we provide; and (ii) arm's length negotiation with our clients with reference to their background and profile (including their trading history, volume and frequency of trades, financial credibility and the length of client relationship). For example, our senior management may agree to offer clients who are active traders a more favourable commission rate if their trading volume reach or are expected to reach a certain prescribed amount. Such offers are made and approved on a case-by-case basis.

As the amount of brokerage commission we charge on securities traded through the Referred Accounts will have a direct bearing on the amount of commissions which are payable to our staff dealers or AEs responsible for the relevant accounts, we generally permit our staff dealers and AEs to negotiate with our clients in respect of the amount of brokerage commission chargeable on Referred Accounts. We believe that while staff dealers and AEs may be incentivised to negotiate higher brokerage commissions with clients, this is balanced against their ability to acquire or retain clients with such higher brokerage commissions. In respect of Referred Accounts, out of the commission rate we charge our clients for executing and/or arranging execution of trades ranged from 0.075% to 0.25% of the transaction value of the relevant trade order, we retain a range of brokerage commission ranging from 0.075% to 0.125% of the transaction value (as agreed with our staff dealers and AEs).

In respect of subscription to IPOs and secondary placing transactions procured through our placing and underwriting services, we charge a commission of 1.0% of the subscription price of relevant securities, which is equivalent to the amount set for IPO transactions pursuant to paragraph 7 of Appendix 8 to the Main Board Listing Rules and paragraph 6 of Appendix 9 to the GEM Listing Rules or other applicable requirements.

The default interest rate we charge our clients who default in their settlement of trades is determined by our responsible staff dealer or AE who take into account factors such as the client's financial condition and credibility, prevailing market conditions and interest rates. The default interest rate requires the final approval of our responsible officers, and may be adjusted from time to time subject to prevailing circumstances.

On the basis of the above pricing policies, over the Track Record Period:

- (i) the commission rate we charged our clients for executing and/or arranging the execution of trades ranged from 0.075% to 0.25% of the transaction value of relevant trade order;
- (ii) we generally charged our clients a brokerage commission of 1.0% of the subscription price of securities in connection with subscriptions to IPOs and secondary placing transactions procured through our placing and underwriting services; and
- (iii) the default interest rate we charged our cash clients in respect of defaults in settlement of trades executed through us is generally 7.0% above the prevailing Hong Kong Prime Rate per annum.

For the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, we generated (i) total brokerage commission of approximately HK\$16.7 million, HK\$31.1 million, HK\$21.3 million and HK\$7.0 million, respectively, of which approximately HK\$330,000, HK\$400,000, HK\$246,000 and HK\$83,000 were paid to our staff dealers and AEs for the respective periods; and (ii) total default interest income of approximately HK\$680,000, HK\$960,000, HK\$544,000 and HK\$136,000, respectively.

(ii) *Margin financing services*

We offer margin financing services to our clients to facilitate their purchases of securities on a margin basis, both for IPOs and in the secondary market. In each case, the relevant underlying securities are pledged as collateral in order to secure clients' repayment obligations.

Method of obtaining a margin loan

Each of our clients who wishes to obtain margin financing from us is required to open and maintain a margin account (being a margin account) with Sinomax Securities and sign a margin agreement before the commencement of any margin trading. The credit limit which may be approved for a client would depend on their background (including employment status and investment experience), financial standing as well as trading behaviour (including portfolio concentration and liquidity and/or price volatility of the stocks traded).

As at 31 March 2017, 2018 and 2019 and 31 July 2019, a total of 192, 288, 377 and 387 margin accounts, respectively, were opened for our clients, of which 96, 157, 183 and 125 were active accounts, respectively.

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Interest income

We generate income from charging interest on the outstanding principal amount of margin loans which we provide to our margin clients.

Pricing policy

The interest rate we charged our margin clients during the Track Record Period ranged from 2.0% above the prevailing Hong Kong Prime Rate up to 21.6% per annum. The interest rate we charged is determined with reference to the relevant client's trading record, creditworthiness and trading behaviour, the quality of securities pledged and/or other collateral given to secure the margin loan. We may charge higher interest rates to clients we consider as being of higher credit risk.

Margin limits and collateral arrangements

Margin clients are required to maintain cash and/or acceptable securities as collateral to secure their repayment obligations in respect of margin loans they borrow for trading. To minimise our credit risk exposure, the maximum margin loan which we may extend to a client (i.e. the margin limit) for margin trading is limited by the amount and quality of the collateral maintained by the client in its margin account.

We accept cash and securities listed on the Stock Exchange as eligible collateral, but warrants, securities listed on GEM, suspended or unlisted securities or securities listed on other stock exchanges are not eligible to be posted as collateral for the purpose of securing repayment of margin loans.

The table below sets forth the breakdown of the nature of securities pledged by our clients as collateral under our margin financing business:

	2017			As at 31 March 2018			2019			As at four months ended 31 July 2019		
	(HK\$'000) approximately	% approximately	Margin ratio	(HK\$'000) approximately	% approximately	Margin ratio	(HK\$'000) approximately	% approximately	Margin ratio	(HK\$'000) approximately	% approximately	Margin ratio
Blue chip securities (Note 1)	6,015	0.69	60%	122,200	14.83	60%	34,079	4.15	60%	41,581	5.31	60%
Securities of Hong Kong listed issuers (non-blue chip securities)												
– Main Board listed companies	762,566	87.23	20%-50%	699,895	84.95	20%-50%	754,142	91.83	20%-50%	712,601	91.02	20%-50%
– GEM listed companies (Note 2)	105,067	12.02	0%	1,844	0.22	0%	6,370	0.78	0%	2,079	0.27	0%
Warrants (Note 3)	555	0.06	0%	14	0	0%	122	0.01	0%	0	0	0%
Bonds (Note 4)	0	0	N/A	0	0	N/A	26,543	3.23	50%	26,662	3.41	50%
Total	874,203	100	–	824,053	100	–	821,256	100	–	782,924	100	–

Notes:

- Blue chip securities mean listed securities that are constituent stocks of the HSI.

2. For illustrative purpose, we also take security over securities of GEM listed companies, but the margin ratio of the securities of GEM listed companies was 0% during the Track Record Period because they are not eligible to be posted as collateral for the purpose of securing repayment of margin loans.
3. Warrants are not accepted as eligible collateral in determining the margin limit we impose on a margin client, although they are pledged as collateral to secure repayment obligations, we are nevertheless entitled to dispose these securities in the event of default.
4. Since October 2019, we no longer accept bonds as eligible collateral in determining the margin limit we impose on a margin client.

Our responsible officers and risk management team maintain a list of stocks eligible to be posted as collateral, together with corresponding margin ratios (being the maximum percentage of financing our margin clients may borrow against the market value of eligible stocks in their margin accounts).

We determine the margin ratio of individual securities in respect of our margin financing business with reference to LTV ratio for eligible securities adopted by the retail banks in Hong Kong for securing overdraft facilities. On such basis, we generally designate a margin ratio of (i) 60% to HSI constituent stocks; (ii) between 30-50% for constituent stocks of other Hang Seng indices (such as the Hang Seng China Enterprises Index or the Hang Seng Composite Index) which are not constituent stocks of HSI; and (iii) less than 30% for other listed shares with reference to the market capitalisation of the relevant issuer as well as the historic price volatility and liquidity of the relevant shares. Further, as a general policy as of October 2019, we designate a margin ratio of 0% for shares of issuers listed on GEM, bonds and derivatives, including warrants and callable bull/bear contracts (i.e. such securities are not eligible for securing margin loans) although we nevertheless take collateral over such securities for securing repayment obligations of relevant clients.

Upon request, we may reassess the margin limit of a client based on trading volume in his/her margin amount, types and quality of securities collateral posted, as well as his/her settlement history.

IPO financing

We provide IPO financing to clients for subscriptions to shares offered under IPOs. The interest rate we offer to our clients for IPO financing is generally determined on the same basis as the interest rate we offer for margin financing for other securities dealing purposes.

For the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, we generated approximately HK\$9.9 million, HK\$10.3 million, HK\$12.8 million and HK\$5.2 million, in interest income from our provision of margin financing services respectively.

We have adopted a credit control policy and implemented various measures in order to control our exposure to credit risks arising from our provision of margin financing to our clients, including, *inter alia*:

- (i) approval of a responsible officer and/or our credit control committee for certain matters (including, *inter alia*, the designation of a credit limit to each client, the interest rates which shall be chargeable on margin loans of each client, client's request for withdrawal or transfer of funds or stock collateral, or the exercise of discretion for approving further dealing in securities for clients who are subject to a margin call);
- (ii) maintenance of a list of acceptable securities which may be posted as collateral for securing margin loans as well as respective margin ratios in respect of such securities;
- (iii) regular review of the quality of securities pledged as collateral by our clients, updating margin ratios (as necessary) and communicating margin requirements and making margin calls to clients as appropriate. In particular:
 - (a) margin call reports are generated by our trading system on a daily basis and are reviewed by a responsible officer and/or our credit control committee; and
 - (b) in determining whether to cause a forced liquidation of pledged collateral to limit our risk exposure, we would consider factors including the creditworthiness and settlement history of the relevant client, the prevailing market conditions leading to the margin call and the quality of pledged collateral etc;
- (iv) regular review of our exposure to concentration risks arising from taking of a single stock as collateral or the provision of a material amount of margin loans to a single client;
- (v) assessments conducted by our credit control committee of credit risks arising from overdue repayments from clients or the failure of clients in posting requisite collateral;
- (vi) regular review of the implementation, sufficiency and efficacy of the credit risk management systems and measures adopted by us from time to time; and

(vii) stringent compliance with relevant statutory and SFC requirements, including:

- (a) ensuring that the amount of outstanding bank borrowings, overdrafts and advances drawn down by us (using bank facilities and credit lines made available to us) do not exceed 120% of the value of outstanding margin loans we make to our clients;
- (b) ensuring the aggregate market value of securities collateral pledged to us which we repledge to our lenders does not exceed 140% of the aggregate amount of margin loans; and
- (c) notifying the SFC when the aggregated outstanding balance of borrowings drawn under our bank credit facilities is equal to or exceeds 80% of the total credit limit granted to us, if we repledge securities collateral for borrowing from authorised institutions.

Our credit control policies (including our margin call policy) are set out in margin client agreements which our margin clients are required to enter with us before margin or IPO financing may be provided to them. Such margin client agreements would include risk disclosure statements in a prominent position that our margin clients have, pursuant to the terms of the margin client agreement, authorised us, by way of a standing authority, to pledge securities in their securities account as collateral to secure their margin loans, and that such pledged securities may be further repledged by us to secure debt financing that may be undertaken by us.

As at the Latest Practicable Date, our credit control committee consists of two members, including (i) Mr. Sy, the chief executive officer of our Group and a responsible officer of securities trading activities of Sinomax Securities; and (ii) Mr. Ng, the head of the risk management department and a responsible officer of securities trading activities of Sinomax Securities.

Our Directors believe that Sinomax Securities has adopted a prudent credit risk policy, and as such, no loss had resulted from any default of repayment of margin loans by our clients during the Track Record Period.

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

	For the year ended 31 March			For the four months ended
	2017	2018	2019	31 July 2019
	<i>(in HK\$'000, except for ratios)</i>			
Total balance of margin financing as at the last day of the relevant financial year/period	82,032	86,229	184,914	192,077
Total market value of collateral ^(Note 1) held as at the last day of the relevant financial year/period	874,203	824,053	821,251	782,924
Average LTV ratio (%) ^(Note 2)	9.4%	10.5%	22.5%	24.5%
Range of month-end LTV ratio (%) on an aggregate basis ^(Note 3)	8.0%- 25.2%	13.3%- 34.9%	16.6%- 27.4%	17.2%- 23.1%
Average month-end balance of all margin loans	65,304.5	84,603.5	132,860.0	163,774.3
Highest month-end balance of all margin loans	81,800.9	107,602.1	179,273.9	185,195.9
Lowest month-end balance of all margin loans	40,173.0	54,767.4	68,202.6	135,343.3
Range of month-end-LTV ratio (%) on an individual basis ^(Note 4)	0.4%- 745.7%	0.4%- 108.3%	0.4%- 127.9%	2.2%- 97.6%
	<i>(Note 5)</i>			

Notes:

- These refer to collateral pledged for security margin loans drawn down by clients to support securities trading.
- Average LTV ratio is calculated based on the balance of the margin loan as at 31 March 2017, 31 March 2018, 31 March 2019 and 31 July 2019 divided by the market value of the collateral held as at the corresponding dates.

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3. Such ratio is calculated as the aggregated amount of margin loan receivables divided by the total market value of the collateral held for margin loans drawn down by clients to support the securities trading as at month-end of the relevant financial year.
4. Such ratio is calculated based on the highest and lowest LTV ratio of individual margin account recorded as at month-end of the relevant financial year, with collateral pledged for security margin loans. These exclude all margin loans for IPO subscription.
5. Saved for one incident where the shares purchased by a client experienced more than 16.24% drop in price within six Business Days period, the range of month-end-LTV ratio on an individual basis for the year ended 31 March 2017 was 0.4% to 119.9%. As we have not recorded any other month-end-LTV ratio of more than 130% on an individual basis during the Track Record Period, our Directors consider that it was an isolated one-off incident which do not have a material impact on the operations, and financial position of our Group.

Further, it should be noted that prior to August 2019, we would make margin calls where the LTV ratio exceeded 80% rather than based on triggering levels for making first and successive margin calls taking into account relevant factors, including, quality, volatility and liquidity of securities collateral provided by clients. Such use of a more lax benchmark has led to less incidents which would warrant the consideration of margin call waivers than the use of prescribed margin ratio. For further details, please refer to the paragraph headed “Findings of SFC inspection visit in May 2019 – (2) Securities Margin Financing – Lax margin call triggers and documentation standard” in the section headed “Business” in this prospectus.

(iii) Services ancillary to the provision of securities trading services

Our staff dealers and AEs may provide our securities brokerage clients with various advice in respect of securities traded through us. Such advice is provided typically to guide the investment decisions of our clients and may include advice relating to the latest buy/sell prices. We do not charge our clients any separate or additional fee for providing such advisory services to them.

In addition, we provide other ancillary services related to our securities trading business, including the provision of nominee services (to assist clients with the collection of share certificates or dividends) and scrip handling services. For such services, we charge our clients a scrip fee, dividend collection fee and/or handling service fee (as applicable), which are recognised when the agreed services have been provided. For the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, the total income generated from such ancillary services amounted to approximately HK\$0.6 million, HK\$0.9 million, HK\$1.5 million and HK\$0.4 million, respectively, representing approximately 1.6%, 1.7%, 2.3% and 1.5% of our total revenue, respectively.

Our clients and client accounts

As at 31 March 2017, 2018 and 2019 and 31 July 2019, clients of Sinomax Securities maintained a total of 1,679, 1,892, 2,013 and 2,050 client accounts for carrying on of securities trading, of which approximately 22%, 22%, 19% and 12% were active accounts, respectively.

In general, each client of our securities trading business is required to hold either a cash account or a margin account. We maintain margin accounts for clients who carry out margin trading and cash accounts for clients who do not.

From a client administration perspective, we have two categories of securities trading accounts, namely:

- (i) *House Accounts*: these are accounts held by walk-in clients or clients introduced by our management without direct involvement or referral of staff dealers or AEs. All the brokerage commissions generated in such accounts will be recognised as income of our Group and will not be shared with staff dealers or AEs; and
- (ii) *Referred Accounts*: these are accounts held by clients which were referred to us by staff dealers or AEs who will be responsible for serving them (including their execution of trade orders). Brokerage commissions generated in such accounts will be shared with the relevant staff dealers or AEs who referred the client to us.

We did not carry out material proprietary trading activities over the Track Record Period and therefore we closed our proprietary trading account on 17 June 2019. Over the Track Record Period, the amount of commission income generated from trading in our proprietary trading account amounted to approximately HK\$1,000.

As at 31 March 2017, 2018, 2019 and 31 July 2019, we had 984, 1,192, 1,300 and 1,336 House Accounts, and 695, 700, 713 and 714 Referred Accounts, respectively.

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The table below sets out movements in the number of securities trading accounts opened by clients with us over the Track Record Period:

	For the year ended 31 March			For the four months ended 31 July 2019
	2017	2018	2019	
Number of House Accounts at the end of the financial year/period	984	1,192	1,300	1,336
Number of Referred Accounts at the end of the financial year/period	695	700	713	714
Number of accounts maintained at the beginning of the financial year/period (Note 1)	1,441	1,679	1,892	2,013
– cash accounts	1,349	1,487	1,604	1,636
– margin accounts	92	192	288	377
Number of accounts opened during the financial year/period	249	243	142	44
– cash accounts	147	143	46	33
– margin accounts	102	100	96	11
Number of accounts closed during the financial year/period	11	30	21	7
– cash accounts	9	26	14	6
– margin accounts	2	4	7	1
Number of accounts maintained at the end of the financial year/period	1,679	1,892	2,013	2,050
– cash accounts	1,487	1,604	1,636	1,663
– margin accounts	192	288	377	387
Number of active accounts at the end of the financial year/period (Note 2)	374	414	389	245
– cash accounts	278	257	206	120
– margin accounts	96	157	183	125
Number of inactive accounts at the end of the financial year/period	1,305	1,478	1,624	1,804
– cash accounts	1,209	1,347	1,430	1,542
– margin accounts	96	131	194	262

Notes:

1. A number of our clients have opened both cash and margin accounts depending on their securities trading activities.
2. Accounts which recorded at least one trading activity (purchase and/or sale of securities) within the immediately preceding 12 months are regarded as active accounts.

For the purpose of carrying out securities trading, clients are required to deposit funds in their client accounts opened with us. We generally only accept deposits from clients through bank accounts which they maintain with an Authorised Institution in Hong Kong.

To mitigate anti-money laundering risks, we may require our clients to provide evidence of their source of funding (for example, requiring the provision of a copy of a personal cheque bearing the client's name) in respect of large deposits or when suspicious fund transfers are detected.

(B) Placing and underwriting services

We provide placing and underwriting services by acting as (i) bookrunner, lead manager or underwriter in respect of listing applicants in IPOs; and (ii) placing agent of listed companies in connection with the issuance or sale of securities, in return for placing and underwriting commission income. We also charge investors a brokerage commission when they subscribe for securities of issuers through our placing and underwriting services.

Acting as bookrunner, lead manager or underwriter in relation to IPOs

Our clients comprised companies listed or to be listed on the Stock Exchange, lead underwriters or placing agents in respect of IPOs and secondary offerings.

Where we act as an underwriter in an IPO, we are obliged to take up or procure the applications of any unsubscribed shares offered by the issuer in the IPO up to our maximum underwriting commitment, as agreed with the lead bookrunner or manager and the issuer in the relevant underwriting agreement, in the event of any undersubscription of shares in the relevant share offer. We charge our clients underwriting commissions which are typically either a pre-determined fixed fee or a fixed percentage of the aggregate offer price of the number of securities underwritten by us. The rate of underwriting commission payable to us for IPOs is negotiated with the bookrunners or lead managers on an arm's length basis.

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For the years ended 31 March 2017, 2018 and 2019 and 31 July 2019, our aggregate underwriting commitments for IPOs amounted to approximately HK\$176 million, HK\$186 million, HK\$721 million and HK\$163 million, respectively, and the value of securities placed amounted to approximately HK\$50 million, HK\$830 million, nil and nil, respectively. During the Track Record Period, we did not subscribe, as principal on our own account, for any securities under the underwriting or placing exercises as a result of undersubscription in respect of our underwriting commitments.

Acting as placing agent in IPOs and secondary offering

We may be engaged to place securities on an agreed price on a best effort basis within a period of time when we acted as placing agent for the issue of new securities by listing applicants or listed issuers. We charge our clients placing commissions for acting as placing agent in respect of the issue of securities based on the aggregate placing price of the securities successfully placed by us.

During the course of providing our placing and underwriting services, we may engage sub-placing agents or sub-underwriters, to form placing and/or underwriting syndicates. We aim to leverage on these parties' distribution capabilities for the completion of the placing and underwriting exercise, in order to share the risks of undersubscriptions, and/or to lessen the extent of depletion of our liquid capital in meeting capital requirements under the FRR. For the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, the amount of expenses which we have incurred for engaging in such syndication activities as part of our placing and underwriting services amounted to approximately HK\$1.0 million, HK\$3.9 million, HK\$4.6 million and HK\$1.2 million, respectively.

The following table sets out a summary of the placing and underwriting projects undertaken by our Group during the Track Record Period:

Types of fund raising exercise	Our role	For the year ended 31 March			For the four months ended
		2017	2018	2019	31 July 2019
	<i>New applicants</i>		Number of completed transactions		
– Main Board IPOs	Underwriter/				
	Sub-underwriter	12	10	23	12
– GEM IPOs	Underwriter/				
	Sub-underwriter	3	3	3	–
<i>Companies listed on the Stock Exchange</i>					
– Placing of debt securities	Placing agent	1	–	–	–
– Placing of new shares	Placing agent	–	3	–	–
Total number of transactions		16	16	26	12

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Our placing and underwriting business has grown significantly since we commenced the business in 2016. Our revenue generated from our placing and underwriting business amounted to approximately HK\$7.8 million, HK\$12.9 million, HK\$28.8 million, HK\$6.3 million and HK\$12.7 million for the years ended 31 March 2017, 2018 and 2019, the four months ended 31 July 2018 and 31 July 2019, respectively, representing an increase of approximately 102.5% from the four months ended 31 July 2018 to the four months ended 31 July 2019.

We attribute the success of our placing and underwriting business to the synergy which is created by the complementary nature of our securities trading business. In particular, our brokerage business offers a channel for us to procure investors to subscribe for securities under IPOs or secondary offerings (i.e. we are able to effectively market securities which we have undertaken to place or underwrite to our brokerage clients).

We set out below information relating to all our placing and underwriting projects completed during the Track Record Period:

For the year ended 31 March 2017

	Client	Nature of the transaction	Our role	Fund raising size approximately HK\$'000	Our underwriting commitment	Revenue contribution approximately HK\$'000
1	SingAsia Holdings Limited (stock code: 8293)	GEM IPO	Joint-lead manager and bookrunner	62,500	98.40%	2,327
2	Client E <i>(Note 1)</i>	Placing of debt securities	Placing agent	57,344	Best effort basis	1,500
3	JNBY Design Limited (stock code: 3306)	Main Board IPO	Underwriter	920,000	3.30%	1,380
4	Client X <i>(Note 2)</i>	Main Board IPO	Sub-underwriter	6,284,760	0.36%	860
5	Luzhou Xinglu Water (Group) Co., Ltd. (stock code: 2281)	Main Board IPO	Underwriter	494,362	0.90%	566
6	Shanghai Dazhong Public Utilities (Group) Co., Ltd. (stock code: 1635)	Main Board IPO	Underwriter and co-manager	1,921,115	0.52%	365
7	Client AC <i>(Note 3)</i>	Main Board IPO	Sub-underwriter	297,000	3.47%	280
8	Client AD <i>(Note 4)</i>	Main Board IPO	Sub-underwriter	690,000	0.87%	180
9	China Industrial Securities International Financial Group Limited (stock code: 8407)	GEM IPO	Co-manager and underwriter	1,330,000	0.10%	120
10	Client AE <i>(Note 5)</i>	Main Board IPO	Sub-underwriter	228,750	8.00%	70
11	Client AF <i>(Note 6)</i>	Main Board IPO	Sub-underwriter	1,768,125	0.12%	66

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	Client	Nature of the transaction	Our role	Fund raising size approximately HK\$'000	Our underwriting commitment	Revenue contribution approximately HK\$'000
12	Janco Holdings Limited (stock code: 8035)	GEM IPO	Co-lead manager and co-bookrunner	61,500	2.33%	50
13	Client AG <i>(Note 7)</i>	Main Board IPO	Sub-underwriter	1,643,152	0.05%	50
14	Client AH <i>(Note 8)</i>	Main Board IPO	Underwriter	673,380	0.90%	20
15	Pantronics Holdings Limited (stock code: 1611)	Main Board IPO	Co-lead manager	135,000	0.44%	9
16	IBI Group Holdings Limited (stock code: 1547)	Main Board IPO	Co-manager	90,000	0.40%	5

Notes:

1. A Main Board issuer which is principally engaged in the manufacturing and sales of wireless telecommunications coverage system equipment and the provision of related engineering services.
2. A PRC-based Main Board issuer which is mainly engaged in the provision of leasing services.
3. A Main Board issuer which is principally engaged in the development and sales of residential properties in various geographic location as well as development and lease of properties in the PRC.
4. A PRC-based Main Board knitwear manufacture which provides one-stop in-house solutions for its customers involving design origination, raw material procurement, sample product development as well as the production and delivery of quality products.
5. A Main Board issuer which is principally engaged in the trading of integrated circuits and other electron components.
6. A Main Board issuer which is principally engaged in the provision of private formal education from kindergarten to university non-vocational education services in Henan Province of the PRC.
7. A Main Board issuer which is principally engaged in the sale and installation of engine-based electricity generation units and the provision of distributive power solutions.
8. A Main Board issuer which is principally engaged in the manufacturing and sales of rail fastening system products and welding materials products.

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For the year ended 31 March 2018

	Client	Nature of the transaction	Our role	Fund raising size approximately HK\$'000	Our underwriting commitment	Revenue contribution approximately HK\$'000
1	Dingyi Group Investment Limited (stock code: 508)	Placing of new shares	Placing agent	265,800	Best effort basis	1,595
2	Dingyi Group Investment Limited (stock code: 508)	Placing of new shares	Placing agent	325,680	Best effort basis	1,954
3	Tongda Hong Tai Holdings Limited (stock code: 2363)	Main Board IPO	Co-lead manager and sole bookrunner	86,992	90.48%	1,995
4	MECOM Power and Construction Limited (stock code: 1183)	Main Board IPO	Co-lead manager	375,000	3.00%	1,613
5	Vobile Group Limited (stock code: 3738)	Main Board IPO	Co-manager and underwriter	236,586	10.91%	1,500
6	Kidsland International Holdings Limited (stock code: 2122)	Main Board IPO	Co-lead manager	310,000	10.00%	821
7	Sanbase Corporation Limited (stock code: 8501)	GEM IPO	Lead manager and underwriter	78,000	5.00%	735
8	BOCOM International Holdings Company Limited (stock code: 3329)	Main Board IPO	Co-lead manager	1,968,171	0.08%	693
9	Client AI ^(Note 1)	Placing of new shares	Placing agent	110,000	Best effort basis	660
10	Henan Jinma Energy Company Limited (stock code: 6885)	Main Board IPO	Co-lead manager and underwriter	406,263	0.10%	470
11	Shandong International Trust Co., Ltd (stock code: 1697)	Main Board IPO	Underwriter	2,950,662	0.03%	420
12	Kunming Dianchi Water Treatment Co., Ltd. (stock code: 3768)	Main Board IPO	Co-lead manager and underwriter	1,329,490	0.50%	290
13	Client AJ ^(Note 2)	Main Board IPO	Sub-underwriter	8,197,228	0.06%	90
14	Client AK ^(Note 3)	Main Board IPO	Sub-underwriter	315,000	2.93%	69
15	Client AL ^(Note 4)	GEM IPO	Sub-underwriter	70,000	14.28%	50
16	Client AM ^(Note 5)	GEM IPO	Sub-underwriter	61,776	3.79%	40

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Notes:

1. A Main Board issuer which is principally engaged in the production and sale of coal and provision of low-rank coal upgrading services.
2. A Main Board issuer which is mainly engaged in the provision of securities brokerage, securities investment consulting, financial advisory (relating to securities trading and securities investment activities) securities underwriting and sponsorship activities, securities asset management, securities investment fund and financial products distribution, providing futures companies with intermediary introduction services, margin financing, acting as insurance ancillary agent, stock options market making, and precious metal products sales businesses.
3. A Main Board issuer which is principally engaged in the provision of wide range of construction services.
4. A GEM issuer which is mainly engaged in the operation of restaurants.
5. A GEM issuer which is principally engaged in the sale and distribution of furniture and home accessories.

For the year ended 31 March 2019

	Client	Nature of the transaction	Our role	Fund raising size approximately HK\$'000	Our underwriting commitment	Revenue contribution approximately HK\$'000
1	Perennial Energy Holdings Limited (stock code: 2798)	Main Board IPO	Co-lead manager and co-bookrunner	272,000	99.9950%	8,568
2	Dominate Group Holdings Co. Ltd. (stock code: 8537)	GEM IPO	Co-lead manager	56,250	44.00%	3,465
3	Client N ^(Note 1)	Main Board IPO	Sub-underwriter	100,500	52.00%	2,650
4	Kingsley Edugroup Ltd. (stock code: 8105)	GEM IPO	Joint-lead manager	80,000	46.30%	2,500
5	eBroker Group Ltd. (stock code: 8036)	GEM IPO	Co-bookrunner	64,400	15.53%	1,934
6	Client AN ^(Note 2)	Main Board IPO	Co-lead manager	1,174,573	0.0002%	1,250
7	Client AO ^(Note 3)	Main Board IPO	Sub-underwriter	4,318,092	1.19%	1,000
8	Client AP ^(Note 4)	Main Board IPO	Underwriter	632,647	6.46%	940
9	AsiaInfo Technologies Limited (stock code: 1675)	Main Board IPO	Co-manager	930,581	3.09%	826
10	Ever Sunshine Lifestyle Services Group Limited (stock code: 1995)	Main Board IPO	Co-lead manager	741,192	4.05%	750

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	Client	Nature of the transaction	Our role	Fund raising size approximately HK\$'000	Our underwriting commitment	Revenue contribution approximately HK\$'000
11	Jiangxi Bank Co., Ltd. (stock code: 1916)	Main Board IPO	Co-manager	8,597,745	0.30%	698
12	Client AQ <i>(Note 5)</i>	Main Board IPO	Joint lead manager	282,838	10.61%	555
13	Vcredit Holdings Limited (stock code: 2003)	Main Board IPO	Co-lead manager and underwriter	1,649,712	0.83%	520
14	Sichuan Energy Investment Development Co., Ltd. (stock code: 1713)	Main Board IPO	Co-lead manager and underwriter	475,776	2.00%	430
15	Client AR <i>(Note 6)</i>	Main Board IPO	Co-manager	1,995,768	0.92%	390
16	Weimob Inc. (stock code: 2013)	Main Board IPO	Co-manager and underwriter	846,653	1.00%	350
17	Client AS <i>(Note 7)</i>	Main Board IPO	Sub-underwriter	682,020	1.66%	340
18	Kaisa Property Holdings Limited (stock code: 2168)	Main Board IPO	Co-manager and underwriter	328,300	2.50%	300
19	Client AT <i>(Note 8)</i>	Main Board IPO	Sub-underwriter	144,780	6.38%	280
20	Client AU <i>(Note 9)</i>	Main Board IPO	Sub-underwriter	1,528,136	0.38%	330
21	Client AV <i>(Note 10)</i>	Main Board IPO	Sub-underwriter	447,480	2.27%	200
22	KangLi International Holdings Limited (stock code: 6890)	Main Board IPO	Co-lead manager and underwriter	159,337	4.32%	160
23	China Kepei Education Group Limited (stock code: 1890)	Main Board IPO	Co-lead manager and underwriter	878,247	0.69%	162
24	Client AW <i>(Note 11)</i>	Main Board IPO	Sub-underwriter	220,000	2.00%	110
25	Client AX <i>(Note 12)</i>	Main Board IPO	Sub-underwriter	1,498,113	0.16%	60
26	Babytree Group (stock code: 1761)	Main Board IPO	Co-lead manager and underwriter	1,835,956	0.18%	250

Notes:

1. A Main Board issuer which is principally engaged in the provision of structural works and fitting-out works.
2. A Main Board issuer which is a PRC-based company principally engaged in the operation of online interior design and construction platform and self-operating interior design and construction business.
3. A Main Board issuer which is a PRC-based commercial bank principally engaged in providing financial services to small and micro enterprises, individual business owners and the general public.
4. A Main Board issuer which is principally engaged in the provision of private higher education services.

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5. A Main Board issuer which is a PRC-based company which mainly develops, manufactures and sells industrial and commercial gas flow meters.
6. A Main Board issuer which is a PRC-based commercial bank.
7. A Main Board issuer which is a PRC-based company principally engaged in the manufacturing and sales of natural health products.
8. A Main Board issuer which is mainly engaged in auctioneering of a wide variety of Chinese and Japanese artworks.
9. A Main Board issuer which is principally engaged in the provision of mobile advertising services to app developers.
10. A Main Board issuer which mainly provides education services for pre-school students in kindergartens, for primary school, middle school and high school students in tutorial centers, as well as junior college and for continuing education students in college.
11. A Main Board issuer which is mainly engaged in the operation of full-service restaurants in Hong Kong.
12. A Main Board issuer which is engaged in production of thermal and metallurgical coal for use in the power generation and steel industries in Asian markets.

For the four months ended 31 July 2019

	Client	Nature of the transaction	Our role	Fund raising size approximately HK\$'000	Our underwriting commitment	Revenue Contribution approximately HK\$'000
1	Client AY ^(Note 1)	Main Board IPO	Sub-underwriter	4,957,808	0.09%	100
2	CIMC Vehicles (Group) Co. Ltd (stock code: 1839)	Main Board IPO	Joint lead manager and underwriter	1,690,700	0.0002%	320
3	Client AZ ^(Note 2)	Main Board IPO	Sub-underwriter	2,055,587	0.45%	360
4	Edvantage Group Holdings Limited (stock code: 382)	Main Board IPO	Co-lead manager and underwriter	764,832	0.42%	555
5	Client BG ^(Note 3)	Main Board IPO	Co-manager and underwriter	2,322,364	0.8%	757
6	Client BA ^(Note 4)	Main Board IPO	Sub-underwriter	450,182	14.22%	1,600
7	Client BH ^(Note 5)	Main Board IPO	Co-lead manager and underwriter	601,245	0.12%	720

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	Client	Nature of the transaction	Our role	Fund raising size approximately HK\$'000	Our underwriting commitment	Revenue Contribution approximately HK\$'000
8	Client BD ^(Note 6)	Main Board IPO	Joint lead manager and underwriter	125,000	40.00%	5,000
9	Puijiang International Group Limited (stock code: 2060)	Main Board IPO	Co-lead manager and underwriter	672,798	0.44%	70
10	S.A.I. Leisure Group Company Limited (stock code: 1832)	Main Board IPO	Co-lead manager and underwriter	318,600	0.23%	670
11	Client BB ^(Note 7)	Main Board IPO	Sub-underwriter	1,553,559	0.44%	150
12	Client BC ^(Note 8)	Main Board IPO	Sub-underwriter	3,895,013	0.05%	2,222

Notes:

1. A PRC-based Main Board issuer which is principally involved in the operation of vocational education institutions.
2. A PRC-based Main Board issuer which is principally engaged in the provision of ship leasing services.
3. A PRC-based Main Board issuer which is mainly engaged in financial leasing business.
4. A PRC-based Main Board issuer which is principally engaged in the development and operation of online card and board games business.
5. A PRC-based Main Board issuer which is principally involved in the provision of higher and secondary education services and related management services.
6. A PRC-based Main Board issuer which is mainly engaged in the design, production and sale of eyewear products.
7. A PRC-based Main Board issuer which is principally engaged in the provision of the structure-based drug discovery services to biotechnology and pharmaceutical customers worldwide for their pre-clinical stage innovative drug development.
8. A PRC-based Main Board issuer which is principally engaged in the management and operation of solar farms through its subsidiaries, and generates revenue by selling the electricity to subsidiaries of the State Grid.

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We are undertook a total of 70 placing or underwriting projects over the Track Record Period in which we acted as bookrunner, lead manager, underwriter and/or placing agent. Of these projects, 61 related to placing and/or underwriting of share offers of Main Board listing applicants or listed issuers, and 9 related to the placing and/or underwriting of share offers of GEM listing applicants or listed issuers.

Our underwriting commitment of the underwriting projects undertaken over the Track Record Period ranged from approximately 0.0002% to 99.9950%, with the mean and median of the underwriting commitment are approximately 9.51% and 0.96% respectively. For the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, our underwriting commitment accounted for an average of 8.01%, 10.86%, 11.88%, and 5.20% of the total funds raised by the relevant underwriting projects. Of these projects, our underwriting commitment accounted for less than 10% of the total funds raised in respect of 14, 9, 20 and 10 underwriting projects in the respective periods.

During the Track Record Period, our Group relied on Mr. Lam, the executive director of the equity capital markets department of Sinomax Securities, in identifying and pitching to potential clients for placing and underwriting projects. Such reliance has decreased over the last two years, whereby the amount of fees of our Group attributable to projects referred by Mr. Lam decreased from 94.9% for the year ended 31 March 2018 to approximately 51.5% for the year ended 31 March 2019, to approximately 30.6% for the four months ended 31 July 2019. With a view to further developing and ensuring the sustainability of our placing and underwriting business, our Group plans to hire an additional responsible officer with industry networks as well as a proven track record and experience in supervising placing and underwriting activities as part of our business plan. For further details, please refer to the section headed “Future plans and use of proceeds” of this prospectus.

Commissions and fees

During the Track Record Period, commissions and fees generated by our placing and underwriting services contributed to approximately 22.0%, 22.7%, 44.2% and 49.9% of our total revenue for the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, respectively. The table below sets out a breakdown of commissions and fees generated from our placing and underwriting services during the Track Record Period:

	For the year ended 31 March						For the four months ended 31 July	
	2017		2018		2019		2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Our role								
Placing agent	1,500	19.1	4,209	32.6	–	–	–	–
Underwriter	4,843	61.7	8,436	65.5	23,956	83.1	8,282	65.1
Sub-underwriter	1,506	19.2	249	1.9	4,870	16.9	4,431	34.9
Total	<u>7,849</u>	<u>100</u>	<u>12,894</u>	<u>100</u>	<u>28,826</u>	<u>100</u>	<u>12,713</u>	<u>100</u>

Our pricing policy

The commission we charge for placing and underwriting engagements varies on a case-by-case basis and is agreed with our client (which may be the listing applicant or the lead manager(s), bookrunner(s) or underwriter(s) (as applicable) in respect of IPOs, or the listed issuer or the lead underwriter(s) in respect of secondary offers and placings) based on arm's length negotiations. The factors that would be considered in such negotiations include, among other things, the size, nature, structure and complexity of the relevant fund raising or offering, the proposed pricing and valuation of the offering, the expected amount of time and resources required for performing our roles and duties in the book building process, the number of underwriters and placing agents expected to be involved, the number of shares to be placed or underwritten by us, the business and financial performance of the relevant listing applicant or listed issuer, as well as the then market conditions and investor sentiment.

Our commissions in respect of placing and underwriting engagements are typically (i) based on a pre-determined fixed fee; or (ii) based on a fee calculated with reference to a percentage of the total price of the shares underwritten or placed by us.

Components of remuneration forming our commissions may include, without limitation, (i) underwriting commissions which is typically shared among underwriters involved in syndication; (ii) selling concessions, which is calculated as a discount from the price of an offering in respect of placed or sold securities; (iii) a *praecipium*, which is typically paid to the lead manager in connection with management of the offering which is not shared among underwriters involved in syndication; (iv) an incentive fee which is typically paid by the issuer to the lead manager on a discretionary basis upon completion of the offering, and shared among underwriters involved in the syndication at the discretion of the lead manager; and (v) such other fees or commissions as may be agreed with the client.

The lead manager may be entitled to deduct, from the commissions payable to underwriters involved in syndication in respect of any offering, (i) the underwriters' share of costs and expenses incurred by the lead manager in connection with the offering which are not paid or reimbursed to the lead manager by the issuer; (ii) costs and expenses arising from stabilisation activities or other transactions effected pursuant thereto; or (iii) such other costs and expenses which the underwriters may agree to be liable for in respect of the syndication.

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The following table summarises the effective placing and underwriting commission rates which were charged by us over the Track Record Period (including any underwriting commission, selling concessions, praecipium or other fees (as applicable) charged by us, but without taking into account any discretionary incentive fee that may be paid to us or shared costs and expenses that may be incurred by us in respect of relevant engagements):

	Year ended 31 March			Four months ended 31 July 2019	Average commission per engagement over the Track Record Period
	2017	2018	2019		
Fixed fee engagements	HK\$20,000- HK\$860,000	HK\$40,000- HK\$1,500,000	HK\$60,000- HK\$2,650,000	HK\$100,000- HK\$360,000	HK\$554,182
Fixed rate engagements <i>(rate by of total price of shares underwritten/ placed by us)</i>	1.0%-5.0%	0.4%-3.5%	0.92%-10.0%	1.7%-10.0%	2.78%

Depending on our role in the various placing and underwriting exercises, we collect commission either from the issuers, lead managers or immediate underwriters/placing agents (as applicable) of the relevant placing and underwriting exercises.

Our Directors consider that the placing and underwriting commission rates charged by us are generally in line with market rates and practice.

(C) Investment advisory services

We provide investment advisory services to our clients through our operating subsidiary, Sinomax Securities, a corporation which has been licensed with the SFC to carry on type 4 (advising on securities) regulated activity since 19 August 2016.

We act as investment advisor to our clients, and provide them with (i) investment advice incidental to our securities trading services which we provide free of charge; and (ii) investment consultancy services (whereby we may be required to meet with clients to discuss investment-related matters upon request and issue monthly research reports) in return for a fee. For the years ended 2018 and 2019 and the four months ended 31 July 2019, the revenue contributed by our investment advisory business amounted to approximately HK\$514,000, HK\$242,000 and nil, respectively, representing approximately 0.9%, 0.4% and nil of our total revenue, respectively. We did not generate any revenue from providing investments advisory for the year ended 31 March 2017.

Our investment advisory fees were determined on a case-by-case basis after arm's length negotiations with each client. During the Track Record Period, we charged our clients a fixed advisory fee which was determined with reference to, among others, the scope of our duties, the length of time we expected to spend on the transaction, the complexity of the topics of research and our expected workload.

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The following is a summary of commission rates, interest rates and fees (subject to adjustments after arm's length negotiations with our clients) that we generally charged for our core services during the Track Record Period:

	2017	For the year ended 31 March 2018	2019	For the four months ended 31 July 2019
Securities brokerage commission				
- trading in Hong Kong securities	<ul style="list-style-type: none"> • Commission rate ranging from 0.075% to 0.25% of the transaction value • Minimum commission ranging from HK\$50 to HK\$100 	<ul style="list-style-type: none"> • Commission rate ranging from 0.075% to 0.25% of the transaction value • Minimum commission ranging from HK\$50 to HK\$100 	<ul style="list-style-type: none"> • Commission rate ranging from 0.075% to 0.25% of the transaction value • Minimum commission ranging from HK\$50 to HK\$100 	<ul style="list-style-type: none"> • Commission rate ranging from 0.075% to 0.25% of the transaction value • Minimum commission ranging from HK\$50 to HK\$100
- trading in overseas securities	<ul style="list-style-type: none"> • Commission rate at 0.25% of the transaction value plus the amount equivalent to the fees charged by the third party broker 	<ul style="list-style-type: none"> • Commission rate ranging from 0.125% to 0.25% of the transaction value plus the amount equivalent to the fees charged by the third party broker 	<ul style="list-style-type: none"> • Commission rate ranging from 0.15% to 0.25% of the transaction value plus the amount equivalent to the fees charged by the third party broker 	<ul style="list-style-type: none"> • Commission rate ranging from 0.15% to 0.25% of the transaction value plus the amount equivalent to the fees charged by the third party broker
- subscription to IPOs and secondary placing transactions	Generally 1% pursuant to the Listing Rules or other applicable requirements	Generally 1% pursuant to the Listing Rules or other applicable requirements	Generally 1% pursuant to the Listing Rules or other applicable requirements	Generally 1% pursuant to the Listing Rules or other applicable requirements
Securities margin financing interest				
- cash client	Generally Hong Kong Prime Rate +7% per annum	Generally Hong Kong Prime Rate +7% per annum	Generally Hong Kong Prime Rate +7% per annum	Generally Hong Kong Prime Rate +7% per annum
- margin clients	Ranging from Hong Kong Prime Rate +2% to 21.6% per annum	Ranging from Hong Kong Prime Rate +2% to 21.6% per annum	Ranging from Hong Kong Prime Rate +2% to 21.6% per annum	Ranging from Hong Kong Prime Rate +2% to 14.4% per annum
Placing and underwriting commission (Note 1)	<ul style="list-style-type: none"> • Fixed fee engagements: HK\$20,000-HK\$860,000 • Fixed rate engagements: 1.0%-5.0% of total price of shares underwritten or placed by us 	<ul style="list-style-type: none"> • Fixed fee engagements: HK\$40,000-HK\$1,500,000 • Fixed rate engagements: 0.4%-3.5% of total price of shares underwritten or placed by us 	<ul style="list-style-type: none"> • Fixed fee engagements: HK\$60,000-HK\$2,650,000 • Fixed rate engagements: 0.92%-10.0% of total price of shares underwritten or placed by us 	<ul style="list-style-type: none"> • Fixed fee engagements: HK\$100,000-HK\$360,000 • Fixed rate engagements: 1.7%-10.0% of total price of shares underwritten or placed by us
Other fees				
- Scrip fee (Note 2)	Fixed fee for each board lot of shares	Fixed fee for each board lot of shares	Fixed fee for each board lot of shares	Fixed fee for each board lot of shares
- Handling fees for various services (such as application fees for new issue and cheque handling fees)	Fixed charge for each transaction	Fixed charge for each transaction	Fixed charge for each transaction	Fixed charge for each transaction
- Dividend collection fee	Minimum of HK\$20 to 0.5% of dividend amounts	Minimum of HK\$20 to 0.5% of dividend amounts	Minimum of HK\$20 to 0.5% of dividend amounts	Minimum of HK\$20 to 0.5% of dividend amounts

Notes:

- (1) The commission rate shown are effective placing and underwriting commission rates charged by us over the relevant periods, including any underwriting commission, selling concession, praecipium or other fee (as applicable) charged by us, but without taking into account any discretionary incentive fee that may be paid to, or shared costs and expenses that may be incurred by, us in respect of relevant engagements.
- (2) The registration and transfer fee payable by our clients charged by CCASS before the book-close date or when the cash dividends, scrip dividends, bonus shares, bonus warrants or bonus rights are received by our clients for the first time on shares bought or deposited by our clients before the book-close date.

OUR OPERATIONS

A. Securities trading services

The key processes involved in our securities trading business include (i) account opening; (ii) order taking (in respect of our brokerage services); (iii) loan application, approval and monitoring (in respect of our margin financing services); and (iv) account closing. These processes are summarised below:

(a) Our account opening procedures

As a corporation licensed with the SFC, Sinomax Securities is required to comply with the requirements of the Code of Conduct and other requirements of the SFC when opening a cash account or margin account for a client. To comply with these requirements:

- (i) our staff dealer or AE will take reasonable steps including: (a) verifying the identity of the applicant through examination of identity documents; (b) requiring the identification documentation provided to be dated and the application form to be signed by the applicant in the presence of our staff dealer or AE (or countersigned by the applicable certifying person where non-face-to-face approach is adopted); (c) having the completion of the account opening form attended and witnessed by a staff dealer or AE; (d) reviewing all completed account opening documentation by a staff member of our compliance department or the responsible AE; (e) explaining the risk disclosure statements to the applicant following confirmation of his/her name and identity document details; and (f) sending the login details of the trading account by mail or email to the address provided by our client.

In taking these steps, we are able to establish the true and full identity of each of our clients (or the person or entity ultimately responsible for the originating trade instructions, and the person(s) and entity(ies) that stands to gain the commercial or economic benefit and/or bear the commercial or economic risk of transactions) and their financial situation, investment experience and knowledge in trading securities products and investment objectives prior to opening a cash account or margin account for them. Our staff dealers or AEs will follow a checklist to ensure that all required documents are obtained prior to opening an account;

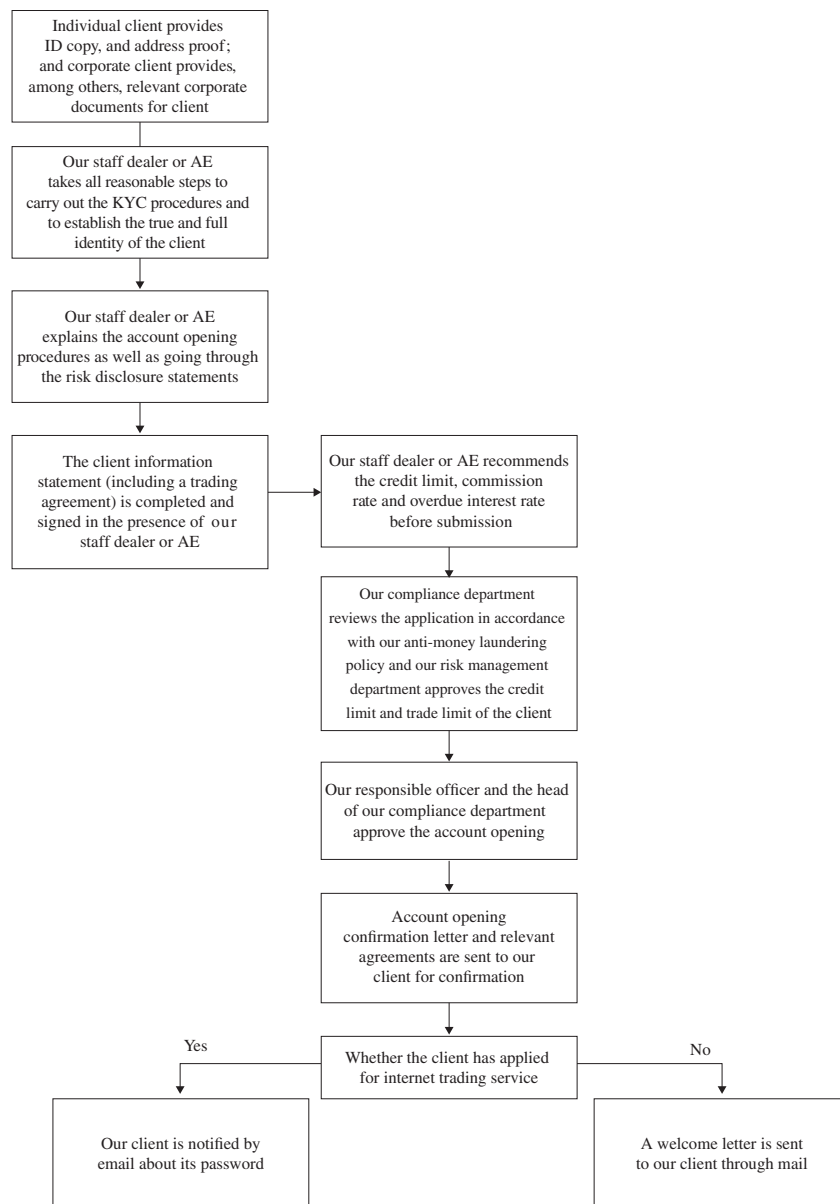
- (ii) all documentation will be submitted to our compliance department which will perform a due diligence review (including online background check) on the potential client and determine if any additional documentation may be required;

- (iii) during the account opening process for a client:
 - (a) a risk assessment is carried out based on our internal guidelines relating to anti-money laundering and counter-terrorist financing; and
 - (b) a credit assessment is carried out (based on factors such as net assets and source of income) and each client will be designated a credit limit or be made subject to other conditions based on their credit rating; such credit limit will be monitored by our dealing staff during trading hours and our clients will not be able to execute trades in excess of their credit limit except with the approval of the responsible officer of Sinomax Securities;
- (iv) each of our clients is required to enter into a written client agreement (in compliance with the content requirements of the Code of Conduct) and complete all the account opening documentation with us before services are provided to them;
- (v) the execution of the client agreement and account opening documentation by our client and the signing and certification of his/her identity documents (such as identity cards, passports, address proofs or corporate documents) are normally carried out in the presence of our staff dealer or AE in Hong Kong. Alternatively, we also accept certification by a Justice of the Peace, a solicitor, a notary public or a certified public accountant and any such certification will be checked by a responsible officer of Sinomax Securities;
- (vi) our staff dealer or AE will explain the terms and conditions stated in the client agreement to our client as well as read to him/her the risk disclosure statements prescribed under the Code of Conduct. Our client will be advised to obtain independent advice in respect of any uncertainty he/she has prior to the opening the account;
- (vii) all account documentation and information provided by a client will be reviewed and approved by the head of the compliance department and a responsible officer of Sinomax Securities in order to complete the account opening procedure. Based on the financial ability of a potential client, further conditions on trading may be imposed on a particular client which will be recorded by the dealing staff of our operations department;
- (viii) where the account opening is approved, our settlement department will enter all required client information into our system, allot our client with an account number, create an account on our online trading platform with an assigned login and initial password, and notify the operations department which will be responsible for ensuring the account is fully functional. Our client will then be informed in writing that the account is in operation and be provided with detailed procedures to download and install the software for accessing our online trading platform or our mobile application together with the relevant account login details and initial password; and

- (ix) if a potential client's application is declined, the relevant applicant will be informed and the relevant client agreement, account opening documentation and information will be kept for record purposes.

We keep all client records and information, including copies of client agreement and account opening documentation securely at our premises in accordance with the requirements of the Securities and Futures (Keeping of Records) Rules (Chapter 571O of the Laws of Hong Kong). We require our clients to provide updated supporting documents when there are changes in any of their personal particulars supplied to us. All account documentation and information are approved by one of our responsible officers.

The following flowchart illustrates our procedures for account opening of both margin and cash accounts:



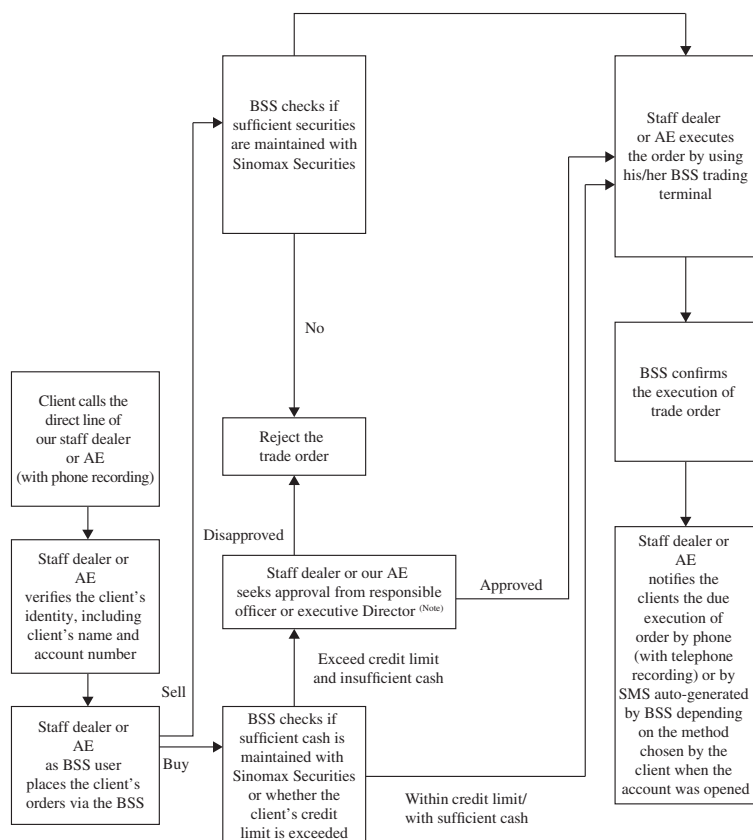
(b) Brokerage business – order taking process

Clients may place trade orders with us for securities trading (i) through telephone; (ii) through our online trading platform accessible at our website or through our mobile application; or (iii) on-site at our office premises by submitting an order ticket. These processes are summarised below:

(i) through telephone

Our Group has authorised our staff dealers and AEs to take telephone orders from our clients. All phone communications between our clients and our staff dealers or AEs are recorded by our tape recording system with immediate time stamp records of our client's instructions as an internal control measure. All staff dealers or AEs should maintain these telephone recordings for at least six months. Our staff dealers or AEs are prohibited from receiving trading orders through mobile phones. No trading order is placed unless the identity of our client can be verified to the satisfaction of the responsible staff dealer or AE. The responsible staff dealer or AE can place order with details through the BSS. Upon execution of a trade order in respect securities listed on the Stock Exchange through the BSS, the responsible staff dealer or AE would confirm the executed order with our client by phone through our telephone recording system or by trade which is automatically generated by the BSS.

The following flowchart illustrates our order taking and securities dealing procedures for our clients who place orders via telephone:



Note: If our client's buy order exceeds his credit limit, our staff dealer or AE may seek approval from a responsible officer as to whether he/she may proceed with the client's buy order. Our responsible officer may override the credit limit after assessing the client's past trading and settlement record, the overall portfolio of the client, and the prevailing market conditions. However, we have in place a policy which governs the maximum amount of exceeded credit limit which can be approved by a responsible officer. If the turnover of the trade order exceeds the approval authority of our responsible officers, then prior approval from our chief executive officer or an executive Director would need to be obtained.

In respect to our cash clients, if the relevant client fails to settle his transactions within T+2 period, our responsible officer or executive Director may exercise discretion whether or not he/she should be allowed to place trade orders when he/she does not have sufficient cash in his/her account. In exercising such discretion, the following factors relating to the relevant client will be considered: (i) background and financial status, such as employment details; (ii) financial wealth and net assets; and (iii) investment experiences and trading behaviours. Even if a discretion is exercised, the relevant cash client will have to trade within his/her credit limit and our responsible officer will monitor his/her credit risks by the LTV ratio (which has to be less than 30%). Meanwhile, our margin clients are allowed to place trade orders even if they fail to settle their transactions within T+2 period.

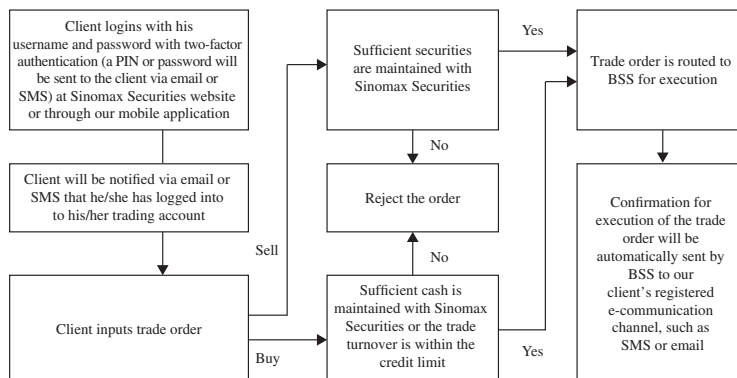
Our back-up terminal shall only be used for emergency purposes such as when an order cannot be executed through the BSS. Only our staff dealers or responsible officers are allowed to access and operate the back-up terminal. In order to access the back-up terminal, the user is required to sign into the access log book for record and audit trail purposes. Our AEs should prepare an order ticket for the back-up terminal user to sign with time stamp for each placed order.

All transactions executed through the back-up terminal are reviewed by our responsible officer or our executive Director and input into the BSS by our operation officer or operation assistant after trading hours.

(ii) through our online trading platform or mobile application

If our clients opt for trading orders online, they must sign an electronic trading agreement with us. Clients are provided with unique usernames and passwords for logging into the online trading platform on our website or through our mobile application for carrying out trading activities, and they may change their passwords from time to time. Other than placing securities trading orders, our clients can also check their available funds and trace their transaction status through our online trading platform on a real time basis. When our clients place trade orders through our online trading platform or mobile application, the BSS will check if they have sufficient cash and/or securities to be posted as collateral in their accounts to cover the transactions. Our clients can only place trade orders through our online trading platform or mobile application when they have sufficient cash and/or securities in their accounts and/or the trade turnover is within their credit limit. Any trade order involving amounts in excess of their credit limits will be rejected and our clients will be alerted simultaneously. In the event a client wishes to trade in excess of their designated credit limit, the client must contact our staff dealers or AEs by telephone, who must seek the prior approval of our responsible officer or executive Director (depending on the extend the buy order exceeds his credit limit) prior to permitting the relevant trade.

The following flowchart illustrates our online trading platform's order taking and securities dealing procedures:



As online trading is a quicker and more efficient way for placing orders than through telephone, the usage of our online trading platform has increased during the Track Record Period. For the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, commission income generated from online trading accounted for approximately 40%, 64%, 71% and 62% of our total brokerage commission from our brokerage services, respectively, while the trading turnover generated from online trading accounted for approximately 43%, 70%, 80% and 80% of our total trading turnover in respect of our brokerage business in the respective financial years. We do not separately charge for the use of our online trading platform.

(iii) On-site at our office premises by submitting an order ticket

Our clients may also opt for placing their trading orders by way of submitting an order ticket at our office premises. Our client shall first inform his responsible staff dealer or AE whether he/she intends to sell or purchase shares so that the applicable order ticket (i.e. a buy ticket or a sell ticket) may be used. Once the appropriate order ticket is duly completed and signed by our client, the responsible staff dealer or AE shall immediately put a time stamp on the order ticket and place our client's order via the BSS pursuant to the instructions given in the order ticket.

Our staff dealer or AE will properly record all trading details from our client, including any cancellation or amendment instruction from him/her. The order ticket will be documented by our settlement department for record and audit trail purposes.

The responsible staff dealer or AE will verify our client's identity, including such client's name and account number with his/her identification document if he/she does not know the client personally. Upon execution of the trade order in respect of securities listed on the Stock Exchange through the BSS, the responsible staff dealer or AE would confirm the executed trade order with our client by phone through the telephone recording system, or by SMS (which is automatically generated by the BSS).

For detailed information on our internal control policies regarding online trading, please refer to the paragraph headed “Risk management and internal control procedures” in this section.

Currently, we have not commenced the provision of discretionary account management services, and our clients take full responsibility for all trading decisions in their trading accounts and we are responsible only for the execution and clearing of transactions in such accounts. Daily transaction statements will be sent to our clients on the next Business Day following the transaction day and monthly statements will be sent to our clients within seven Business Days following the end of each month by mail or email, depending on the method that our clients have chosen when they opened their accounts.

The commission rate we charge for the use of our brokerage services is not affected by the means by which our clients choose to place their trade order.

(c) *Margin financing services*

The key processes involved in our margin financing business include (i) loan application; (ii) loan approval; and (iii) post-loan monitoring. These processes are summarised below:

(i) *loan application*

Clients who wish to obtain margin financing from our Group must maintain a margin account with us. All margin clients must provide our staff dealer or AE with necessary information (including details relating to his/her financial profile, investment experience and investment objective), as part of the account opening procedures for the purpose of assessment as to his/her creditworthiness.

Margin clients also have to sign a margin client agreement before the commencement of any margin trading, and a margin policy letter will be sent to our clients which inform them of the general margin policy of Sinomax Securities. The margin agreement contains terms such as the credit limit of our client (i.e. the expected maximum amount that the client could borrow and/or trade), securities collateral arrangements, margin call policy and risk disclosure statements.

(ii) *loan approval*

Our staff dealers or AEs would assist our clients to complete credit application forms which shall be approved by a responsible officer (who is not interested in, and has no conflict of interests in respect of the relevant margin accounts) prior to any grant of margin loans to the client.

The credit limit (being the maximum amount our client may borrow from us for the purpose of securities trading) that we set on a margin account is determined on a case-by-case basis, based on consideration of various factors, including but not limited to (i) the client's background and financial standing (including his/her employment details and net worth supported by reliable evidence of assets and properties owned by the client); (ii) the client's investment experience in securities trading and trading behavior; (iii) prevailing market conditions; and (iv) financial resources available to our Group for provision of margin financing.

For approving a credit limit of HK\$100,000 or below, the approval from our responsible officer would need to be sought, whereas for a credit limit of HK\$100,000 or above, the joint approval of our responsible officer and the head of our risk department would need to be sought.

The margin limit of each client will be reviewed from time to time.

Securities margin financing services will only be granted to clients in respect of trading of securities listed on the Stock Exchange. The debit balance of our client's margin account can be secured by the marginable value of collateral acceptable to us. In respect of securities collaterals, we assign a margin ratio for each individual listed security, which ranged from 20% to 60% during the Track Record Period. In general, blue chip securities will be granted a margin ratio of up to 60% and other securities which are considered riskier than blue chip securities will be granted a margin ratio between 20% and 30%. No margin financing will be granted in respect of acquisition of securities of GEM listed issuers, warrants or other derivative securities. The marginable value of any securities which has been suspended from trading on the Stock Exchange for three days or more will be reduced to zero. In order to control Sinomax Securities' risk exposure especially in adverse market situations, we review the list of margin ratio of our securities collateral from time to time.

When deciding whether to offer financing for an IPO subscription, we take into consideration the overall market sentiment, the quality of relevant shares being listed (to be provided as collateral to secure the IPO financing) and investors' reaction. Should we decide to finance a client's subscription to an IPO, we will determine the funding scale with reference to the client's financial status and the market sentiment in respect of the relevant shares being listed. The maximum amount of loan that an individual client may obtain in respect of subscription to an IPO is 90% of the total subscription amount. Clients who apply for IPO financing must maintain a margin account with us and deposit no less than 10% of the total subscription amount. For each IPO financing deal, the list of all clients requesting IPO financing shall be submitted to our responsible officer and our risk management department for approval of relevant financing. We adopt a similar policy in determining whether to grant other margin loans under our margin financing business to our clients.

The list of margin ratios will be changed from time to time at the discretion of our responsible officers and subject to the approval of our risk management committee.

(iii) post-loan monitoring

Post-loan monitoring procedures: Further to the grant of margin loans to our clients, we have implemented the following measures to monitor the credit position of our margin clients, and to ensure the appropriate steps are taken as part of our credit policy:

- (i) all margin accounts are monitored by our staff dealers, AEs, responsible officers and settlement staff on an ongoing basis. In particular, our credit control committee (comprising of our responsible officers supervising our securities trading services and our credit officer) would review daily margin call reports (which includes information including, among other things, outstanding balances owed by margin clients, margin call status and margin position) of which are generated by our settlement system on a daily basis. Such close monitoring aims to assess whether any appropriate actions need to be taken, which may include:
 - (a) reducing the credit limit of a particular client;
 - (b) making a margin call against a client to request the deposit of additional funds (where the margin loan amount extended to the client exceeds 110% of the amount of cash collateral and marginable value of securities collateral pledged by the client). Please refer to the paragraph “margin call procedures” below for further details; and/or
 - (c) liquidating securities in a client’s account to cover any shortfall (where a client fails to satisfy a margin call). Please refer to the paragraph “Forced sale procedures” below for further details;
- (ii) our staff dealers and AEs would be responsible for following-up with margin clients referred to the Group by them to ensure timely trade settlements and satisfaction of margin calls;
- (iii) establishing margin limit (being the maximum amount of margin facility that may be granted to a client with reference to amount of collateral posted) to each margin client; the initial margin limit that may be granted to a margin client is initially HK\$100,000, and higher margin limits up to a maximum of HK\$15,000,000 may be set for a particular client subject to obtaining the prior approval of our credit control committee;

- (iv) our responsible officers and risk management team in respect of our securities trading services would monitor the economic situation in the equity market, and in particular, pay close attention to any material adverse changes or deterioration of financial markets that may lead to material adverse movement in price of securities collateral, for the purpose of evaluating whether such changes may impact the exposure to our margin clients as well as risk exposure to our Group;

Margin call procedures: Upon reviewing the daily margin call reports generated by our settlement department, our responsible officers will determine whether the position of a client's account requires a margin call to be made.

The triggering level for making the first margin call is when our client's outstanding loan balance is (i) greater than the approved credit limit; or (ii) 110% of the marginable value of the client's portfolio (the "**margin call triggers**").

When the first margin call is triggered, the responsible staff dealer or AE shall take the following actions:

- (i) promptly call to advise the client of his/her account's status;
- (ii) notify the client to settle the margin call position no later than 24 hours and confirm with the client on how the margin call would be satisfied (either by depositing cash or securities into his/her margin account or sale of all or any portion of his/her securities collateral); and
- (iii) advise our credit officer of the client's response to the said telephone margin notice and continued monitoring of the status of payment on each outstanding margin call on a daily basis until the margin call has been satisfied.

Approval from our responsible officer and the head of the risk management department must be obtained for a waiver of any margin calls with justification properly documented. No further purchase will be allowed for these clients except with the approval of our responsible officer and the head of the risk management department. When determining whether or not to exercise discretion to approve a waiver of a margin call, the factors which our responsible officer will consider include (i) our relationship with the relevant client (in particular, whether the client has maintained at least three years of relationship with us); (ii) his/her financial situation and creditworthiness (in particular, whether the client is a high net worth client with personal assets of at least HK\$5 million); (iii) his/her past trading records; (iv) the quality and value of collateral posted to secure repayment obligations; and (v) whether the client has previously materially delayed and/or failed to restore equity in his/her client account upon request. With reference to the above factors based on evaluation of actual circumstances of the relevant clients, our responsible officer and the head of the risk management department will determine whether to exercise its discretion to approval a waiver of a margin loans

on a case-to-case basis and will continue to monitor those accounts until the margin shortfalls have been rectified. Such margin call waiver policies is adopted as part of the risk management measures of the Group. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, there is no material departure from such standard policies (noting however that we amended the margin call trigger as well as our margin call policy to require the documentation of reasons for approving margin call waiver from August 2019) and we did not incur any impairment loss on accounts receivable arising from the business of dealing in securities and there is no material adverse effect on our results of operations as a result of the exercise of such discretion.

If our client does not make the requested top-up deposit within 24 hours of the first margin call, a second margin call shall be made to him/her with a deadline of another 24 hours clearly stated. Details of such second margin call should be properly documented. If the client still fails to take action to satisfy the margin call, a margin call warning notice shall be sent to him/her via SMS, telephone call, fax or email. The said margin call warning notice is to inform and remind the client that, with immediate effect, we have the discretion to liquidate the securities collateral pledged in his/her margin client account at our discretion so as to settle his/her debt and/or charges owed to us. Clients with outstanding margin call will generally not be allowed to trade through their client account except to sell their securities to settle the margin call. If any unauthorised trade occurs before the margin call is settled, disciplinary or legal actions may be taken against the staff dealer or AE pursuant to the terms of our agreements with them for losses resulting from the unauthorised trade.

If any security pledged as collateral has experienced more than 10% intraday drop in its share price, our responsible officers shall be consulted to consider the need for an intraday margin call to the relevant client, depending on the quality of securities held and the credit worthiness of that client. For an intraday margin call, the responsible staff dealer or AE shall immediately make a margin call with telephone recording and take other follow up actions. In such circumstances, the relevant client shall top up the margin as soon as possible and in any event before commencement of the next trading session.

Further to waiver of margin calls, there are also instances where our clients would be permitted to place trade orders even though margin call of relevant margin loans have been triggered upon the obtaining of approval of our responsible officers. In exercising its discretion to approve the execution of such trade orders, our responsible officers will take into account similar factors which they consider when determining whether to grant a margin call waiver. Further, our responsible officers will monitor the LTV ratio of client accounts to ensure that it is less than 80% under prevailing market conditions.

BUSINESS

Based on daily margin call reports of our Group over the Track Record Period, below is a summary of frequency and materiality of transactions involved for instances whereby our Group has departed from its standard practices under its previous margin policy described in the paragraph headed “Our Operations – (c) Margin financing services – (iii) post-loan monitoring” under the section headed “Business” in this prospectus (except that, during the Track Record Period and prior to amendment to our margin call policy in August 2019, the margin call trigger was a LTV ratio of 80%. For further details regarding our change in margin call policy, please refer to the paragraph headed “Non-compliance and disciplinary actions – Findings of SFC inspection visit in May 2019 – (2) Securities Margin Financing – Lax margin call triggers and documentation standard” under the section headed “Business” in this prospectus):

	For the years ended 31 March			For the four months ended
	2017	2018	2019	31 July 2019
Number of client accounts with margin shortfalls	33	83	97	65
Average number of client accounts with margin shortfall per trading day	2.90	6.61	9.85	15.26
Average amount of margin call deposit waived in respect of margin shortfalls in client accounts at day-end of trading days	908,123	1,264,849	1,430,124	2,359,006
Number of further purchases permitted during periods where client account had margin shortfall	190	1,750	3,054	1,123
Average transaction amount of further purchases permitted during periods when client account had margin shortfall (in HK\$)	270,283	140,363	362,114	522,817

Forced sale procedures: If rectification (i.e. deposit of top-up funds or sales of securities) is not made by our client within the prescribed time limit (usually within 24 hours or such shorter time frame in case of any adverse market condition) after making the second margin call, the management of Sinomax Securities may arrange the forced sale of all outstanding positions in securities held by that client immediately without any further margin call notice or issuance of a warning letter. A daily statement of account will be issued to that client accordingly.

If the balance of a client's account is still outstanding after the abovementioned forced sale, we may initiate legal proceedings to recover any outstanding debt against that client.

Should any outstanding balance remain outstanding following a forced sale and further recovery efforts have been exhausted, after considering the relevant circumstances, we would then make full provisions in our financial accounts against any amounts due. Where we are of the view that the chance of debt recovery is remote, the outstanding debt may, on a case-by-case basis, be written off. In accordance with indemnity provisions contained in contracts entered between Sinomax Securities and our AEs, our AEs shall be responsible for any liability or loss that may be suffered by Sinomax Securities in respect of any unrecoverable debt arising from Referred Accounts managed by the relevant AEs.

When a client's margin position has been rectified, the responsible staff dealer or AE should confirm with our responsible officers as to whether the account could resume trading.

During the Track Record Period, we liquidated the collateral of some of our client accounts in the market due to failure of clients to satisfy margin calls, but no further loaned amounts remained outstanding after such forced sale and no impairment loss were recorded in our financial accounts. As such, we did not initiate any legal proceedings for the recovery of any outstanding debt against our clients during the Track Record Period.

(d) Account closing

We will perform procedures for the closing of a client's account under the following circumstances:

- (1) the client applies for closing of his/her account in writing;
- (2) the client violates or is suspected to or has violated the regulations issued by regulatory bodies;
- (3) the client's account has become dormant (i.e. there has been no trading activity in the relevant client account and there were no client assets maintained in the account for two years or more) and Sinomax Securities has made a determination to close such client account in accordance with the terms of the relevant client agreement;
- (4) the client breaches the terms and conditions of his/her client agreement; or
- (5) the compliance department of Sinomax Securities forms the assessment that the continuance of facilitation of trading or maintenance of the client account would have implication on Sinomax Securities' compliance with applicable law and regulations (including anti-money laundering and counter-terrorist financing laws).

In addition to the above circumstances, we may consider closing a client's account upon the request of the AE responsible for managing the relevant client, subject to obtaining the approval of our responsible officer. The closing of all client accounts is subject to the approval of one of our responsible officers. Upon obtaining such approval, the book of the relevant client account shall be revoked and the closed account status will be updated in the BSS system accordingly.

BUSINESS

OUR CLIENTS

Clients of our securities brokerage and margin financing services during the Track Record Period were mainly retail investors who were residents in Hong Kong or the PRC (based on the address declared during the account opening process). The following table sets out the breakdown of revenue generated by our clients over the Track Record Period by residency of our clients:

	For the year ended 31 March						For the four months ended 31 July 2019	
	2017		2018		2019		2019	
Residency of clients	No. of clients	%	No. of clients	%	No. of clients	%	No. of clients	%
Hong Kong	1,165	78.1	1,243	76.6	1,321	75.8	1,320	74.2
– active clients	304	20.4	334	20.6	313	18.0	194	10.9
– inactive clients	861	57.7	909	56.0	1,008	57.8	1,126	63.3
PRC	299	20.0	348	21.5	387	22.2	419	23.6
– active clients	64	4.3	78	4.8	75	4.3	47	2.6
– inactive clients	235	15.7	270	16.7	312	17.9	372	21.0
Others	29	1.9	31	1.9	35	2.0	39	2.2
– active clients	6	0.4	2	0.1	1	0.1	2	0.1
– inactive clients	23	1.5	29	1.8	34	1.9	37	2.1
Total	1,493	100	1,622	100	1,743	100	1,778	100

While a number of our clients were PRC residents, all of these clients have access to offshore funds and Sinomax Securities do not accept any direct remittance of funds from financial institutions other than Authorised Institutions in Hong Kong. This means that the policies of SAFE on outbound personal remittance of funds, including any restrictions on outbound remittance of funds for investment purposes, are unlikely to have a material impact on our business and results of operations. Our Company does not facilitate any cross-border fund transfers of clients in any way.

The number of active clients increased from 374 as at 31 March 2017 to 389 as at 31 March 2019, representing a CAGR of approximately 1.8%. As at 31 March 2017, 2018 and 2019 and 31 July 2019, these active clients held 278, 257, 206 and 120 cash accounts, respectively, and 96, 157, 183 and 125 margin accounts, respectively. As at 31 March 2017, 2018 and 2019 and 31 July 2019, the transaction values from our corporate clients accounted for approximately 3.0%, 1.1%, 1.8% and 2.5% of our total transaction values, respectively, while approximately 97.0%, 98.9%, 98.2% and 97.5% of the transaction values are derived from our retail clients, respectively.

Clients of our placing and underwriting services include issuers listed on the Stock Exchange, companies seeking to be listed on the Stock Exchange and other SFO licensed entities which act as the bookrunners, lead managers, underwriters and/or placing agents in respect of placing and/or underwriting engagements.

BUSINESS

Our top five clients during the Track Record Period

The tables below set out certain information of our top five clients (by amount of revenue contributed to our Group) during the Track Record Period.

For the year ended 31 March 2017

Rank	Client ^(Note 1)	Services provided by our Group	Revenue contributed (HK\$'000) approximately	% approximately	Approximate length of relationship with our Group (years)
1	Client A	Placing and underwriting	2,327	6.5	N/A ^(Note 3)
2	Client B	Securities dealing and margin	2,207	6.2	7
3	Client C	Securities dealing and margin financing	1,943	5.4	15
4	Client D	Securities dealing and margin financing	1,852	5.2	14
5	Client E	Placing and underwriting	<u>1,500</u>	<u>4.2</u>	N/A ^(Note 3)
Total revenue generated from our top five clients			<u>9,829</u>	<u>27.5</u>	

For the year ended 31 March 2018

Rank	Client ^(Note 2)	Services provided by our Group	Revenue contributed (HK\$'000) approximately	% approximately	Approximate length of relationship with our Group (years)
1	Client F	Placing and underwriting	3,549	6.3	N/A ^(Note 3)
2	Client G	Placing and underwriting	1,995	3.5	N/A ^(Note 3)
3	Client H	Placing and underwriting	1,613	2.8	N/A ^(Note 3)
4	Client I	Securities dealing and margin financing	1,574	2.8	1
5	Client J	Securities dealing and margin financing	<u>1,574</u>	<u>2.8</u>	10
Total revenue generated from our top five clients			<u>10,305</u>	<u>18.2</u>	

Notes:

1. Clients A and E are companies listed on GEM and the Main Board, respectively. Clients B, C and D are individual clients.
2. Clients F, G and H are companies listed on the Main Board; and Clients I and J are individual clients.
3. The clients of our placing and underwriting business generally engage us on a project-by-project basis and therefore, client relationship is generally not sustained.

BUSINESS

For the year ended 31 March 2019

Rank	Client ^(Note 1)	Services provided by our Group	Revenue contributed (HK\$'000) approximately	% approximately	Approximate length of relationship with our Group (years)
1	Client K	Placing and underwriting	8,568	13.1	N/A ^(Note 2)
2	Client L	Securities dealing and margin financing	3,720	5.7	3
3	Client M	Placing and underwriting	3,465	5.3	N/A ^(Note 2)
4	Client N	Placing and underwriting	2,650	4.1	N/A ^(Note 2)
5	Client O	Placing and underwriting	2,500	3.8	N/A ^(Note 2)
Total revenue generated from our top five clients			<u>20,903</u>	<u>32.0</u>	

Notes:

1. Clients K and N are companies listed on the Main Board, while Clients M and O are companies listed on GEM. Client L is an individual client.
2. Clients of our placing and underwriting business generally engage us on a project-by-project basis and therefore, client relationship is generally not sustained.

For the four months ended 31 July 2019

Rank	Client ^(Note 1)	Services provided by our Group	Revenue contributed (HK\$'000) approximately	% approximately	Approximate length of relationship with our Group (years)
1	Client BD	Placing and underwriting	5,000	19.6	N/A ^(Note 2)
2	Client BC	Placing and underwriting	2,222	8.8	N/A ^(Note 2)
3	Client BA	Placing and underwriting	1,600	6.3	N/A ^(Note 2)
4	Client L	Securities dealing and margin financing	1,588	6.2	4
5	Client J	Securities dealing and margin financing	842	3.3	11
Total revenue generated from our top five clients			<u>11,252</u>	<u>44.2</u>	

Notes:

1. Clients BA, BC and BD are companies listed on the Main Board, while Clients L and J are individual clients.
2. Clients of our placing and underwriting business generally engage us on a project-by-project basis and therefore, client relationship is generally not sustained.

BUSINESS

Our top five clients by business segment during the Track Record Period

(a) securities trading business

For the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, the revenue generated from our top five clients of our securities trading business segment (by revenue contributed to our Group), in aggregate, amounted to approximately HK\$8.5 million, HK\$7.7 million, HK\$9.7 million and HK\$3.9 million respectively, representing approximately 23.7%, 13.5%, 14.8% and 15.2% of our total revenue for the respective periods.

The tables below set out certain information in relation to the top five clients of our securities dealing business (by revenue contributed to our Group) over the Track Record Period:

For the year ended 31 March 2017

Rank	Client ^(Note)	Services provided by our Group	Revenue contributed (HK\$'000) approximately	% approximately	Approximate length of relationship with our Group (years)
1	Client B	Margin financing	2,207	6.2	8
2	Client C	Securities and margin financing	1,943	5.4	16
3	Client D	Securities dealing	1,852	5.2	15
4	Client J	Securities dealing and margin financing	1,356	3.8	10
5	Client P	Securities and margin financing	1,108	3.1	2
Total revenue generated from our top five clients of the securities trading business			<u>8,466</u>	<u>23.7</u>	

Note: Clients B, C, D, J and P are individual clients.

For the year ended 31 March 2018

Rank	Client ^(Note)	Services provided by our Group	Revenue contributed (HK\$'000) approximately	% approximately	Approximate length of relationship with our Group (years)
1	Client I	Securities dealing	1,574	2.8	1
2	Client J	Securities dealing and margin financing	1,574	2.8	10
3	Client T	Securities dealing	1,518	2.7	8
4	Client U	Securities dealing and margin financing	1,516	2.7	<1
5	Client V	Securities dealing and margin financing	1,471	2.5	2
Total revenue generated from our top five clients of the securities trading business			<u>7,653</u>	<u>13.5</u>	

Note: Clients I, J, T, U and V are all individual clients.

BUSINESS

For the year ended 31 March 2019

Rank	Client ^(Note)	Services provided by our Group	Revenue contributed (HK\$'000) approximately	% approximately	Approximate length of relationship with our Group (years)
1	Client L	Securities dealing and margin financing	3,720	5.7	3
2	Client J	Securities dealing and margin financing	1,851	2.8	11
3	Client Q	Securities dealing	1,688	2.6	14
4	Client R	Securities dealing and margin financing	1,316	2.0	2
5	Client S	Securities dealing and margin financing	1,114	1.7	<1
Total revenue generated from our top five clients of the securities trading business			9,689	14.8	

Notes: Clients L, J, Q and S are individual clients, while Client R is a private company.

For the four months ended 31 July 2019

Rank	Client ^(Note)	Services provided by our Group	Revenue contributed (HK\$'000) approximately	% approximately	Approximate length of relationship with our Group (years)
1	Client L	Securities dealing and margin financing	1,588	6.2	4
2	Client J	Securities dealing and margin financing	842	3.3	11
3	Client C	Securities dealing and margin financing	489	1.9	17
4	Client BE	Securities dealing and margin financing	488	1.9	17
5	Client BF	Securities dealing and margin financing	480	1.9	5
Total revenue generated from our top five clients of the securities trading business			3,887	15.2	

Note: Clients C, J, L, BE and BF are all individual clients.

(b) placing and underwriting business

For the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, revenue generated from the our top five clients of our placing and underwriting business segment (by revenue contributed to our Group) amounted to approximately HK\$6.6 million, HK\$9.5 million, HK\$19.1 million and HK\$10.3 million, respectively, representing approximately 18.6%, 16.7%, 29.3% and 40.4% of our total revenue for the respective periods.

The tables below set out certain information of the top clients of our placing and underwriting business segment (by revenue contributed to our Group) over the Track Record Period.

BUSINESS

For the year ended 31 March 2017

Rank	Client	Client's background	Revenue contributed (HK\$'000) approximately	% approximately
1	Client A	A GEM issuer which is principally engaged in the provision of workforce solutions	2,327	6.5
2	Client E	A Main Board issuer which is principally engaged in manufacture and sales of wireless telecommunications coverage system equipment, as well as the provision of related engineering services	1,500	4.2
3	Client W	A Main Board issuer which is principally engaged in designing, promoting and selling fashion apparel, footwear and accessories	1,380	3.9
4	Client X	A Main Board issuer which is principally engaged in leasing services.	860	2.4
5	Client Y	A Main Board issuer which is principally engaged in the provision of tap water supply and related installation and maintenance service, wastewater treatment service and construction service	566	1.6
Total revenue generated from our top five clients of the placing and underwriting business			<u>6,633</u>	<u>18.6</u>

For the year ended 31 March 2018

Rank	Client	Client's background	Revenue contributed (HK\$'000) approximately	% approximately
1	Client F	A Main Board issuer which is principally engaged in loan financing businesses	3,549	6.3
2	Client G	A Main Board issuer which is principally engaged in the manufacturing and sale of casings and components of notebooks and tablets	1,995	3.5
3	Client H	A Main Board issuer which is principally engaged in the construction engineering business.	1,613	2.9
4	Client Z	A Main Board issuer which is principally engaged in the provision of online video content protection services	1,500	2.6
5	Client AA	A Main Board issuer which is principally engaged in the retail and wholesale of toys and infant products	821	1.4
Total revenue generated from our top five clients of the placing and underwriting business			<u>9,478</u>	<u>16.7</u>

BUSINESS

For the year ended 31 March 2019

Rank	Client	Client's background	Revenue contributed (HK\$'000) approximately	% approximately
1	Client K	A Main Board issuer which is principally engaged in mining business	8,568	13.1
2	Client M	A GEM issuer which is principally engaged in the manufacturing and distribution of jewellery products	3,465	5.3
3	Client N	A Main Board issuer which is principally engaged in the provision of fitting-out works	2,650	4.1
4	Client O	A GEM issuer which is principally engaged in the provision of education services in Malaysia	2,500	3.8
5	Client AB	A GEM issuer which is principally engaged in the development and supply of financial software solutions	1,934	3.0
Total revenue generated from our top five clients of the placing and underwriting business			<u>19,117</u>	<u>29.3</u>

For the four months ended 31 July 2019

Rank	Client	Client's background	Revenue contributed (HK\$'000) approximately	% approximately
1	Client BD	A PRC-based Main Board issuer mainly engaged in the design, production and sale of eyewear products	5,000	19.6
2	Client BC	A PRC-based Main Board issuer which is principally engaged in the management and operation of solar farms through its subsidiaries, and generates revenue by selling the electricity to subsidiaries of the State Grid	2,222	8.7
3	Client BA	A PRC-based Main Board issuer which is principally engaged in the development and operation of online card and board games business	1,600	6.3
4	Client BG	A PRC-based Main Board issuer which is mainly engaged in financial leasing business	757	3.0
5	Client BH	A PRC-based Main Board issuer which is principally involved in the provision of higher and secondary education services and the related management services	720	2.8
Total revenue generated from our top five clients of the placing and underwriting business			<u>10,299</u>	<u>40.4</u>

Note: Clients of our placing and underwriting business generally engage us on a project-by-project basis and therefore, client relationship is generally not sustained.

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Over the Track Record Period, we have undertaken a total of 70 placing and underwriting projects where we acted as bookrunner, lead manager, underwriter or placing agent, of which 61 related to placing and/or underwriting of share offerings of Main Board listing applicants or listed issuers, and 9 related to placing and/or underwriting of share offerings for GEM listing applicants or listed issuers.

None of our Directors, chief executives, or any person who, to the knowledge of our Directors, owns more than 5% of the issued share capital of our Company or any of its subsidiaries, or any of their respective close associates, had any interest in any of our top five clients of our securities trading and placing and underwriting business during the Track Record Period. All of our top five clients in these respective segments during the Track Record Period are Independent Third Parties.

Revenue generated from our top 30 clients (by revenue contributed to our Group) of our securities trading business

Revenue attributable to our top 30 clients (by revenue contributed to our Group) constituted 49.8%, 44.4%, 35.6% and 35.5% of our total revenue for the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, respectively.

As at 31 August 2019, the total equity balance held in the client accounts of our top 30 clients of our securities trading business was, approximately HK\$599.4 million (or approximately HK\$20 million per client on average).

Clients who were related persons of our Group

During the Track Record Period, we conducted various business activities with our connected persons, (including Directors, directors of our subsidiaries and Controlling Shareholders) existing staff, previous staff, responsible officers, AEs and their respective associates (collectively, “**related persons**”).

The table below sets out the breakdown of revenue (by our business segments) attributable to the provision of services to our related persons for the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, respectively:

	For the year ended 31 March				For the four months ended 31 July			
	2017		2018		2019		2019	
	Revenue	Approximate	Revenue	Approximate	Revenue	Approximate	Revenue	Approximate
	generated by	percentage	generated by	percentage	generated by	percentage	generated by	percentage
	our related	of our	our related	of our	our related	of our	our related	of our
	persons	Group's	persons	Group's	persons	Group's	persons	Group's
	(HK\$'000)	revenue	(HK\$'000)	revenue	(HK\$'000)	revenue	(HK\$'000)	revenue
		(%)		(%)		(%)		(%)
Securities dealing and brokerage services	3,173	8.9	2,092	3.7	1,602	2.5	1,089	4.3
Securities margin financing services	1,404	3.9	1,332	2.3	2,106	3.2	594	2.3
Investment advisory services	–	0	450	0.8	50	0.1	–	0
Handling and other fee income	76	0.2	97	0.2	88	0.1	39	0.2
Total	4,653	13.0	3,971	7.0	3,846	5.9	1,722	6.8

BUSINESS

Revenue generated from our related persons accounted for approximately 13.0%, 7.0%, 5.9% and 6.8% of our total revenue for the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, respectively.

Our Directors confirm that all services provided by Sinomax Securities to related persons during the Track Record Period were provided on an arm's length basis and on normal commercial terms.

Staff and AEs dealing

In respect of securities brokerage services we provide to our staff or AEs, we charge a commission fee equivalent to 0.1% of the transaction amount, subject to a minimum charge of HK\$50 per transaction. For the provision of securities margin financing services to our staff or AEs, we generally charge an interest rate of 2% above the prevailing Hong Kong Prime Rate per annum on the principal amount borrowed. The total revenue generated from proprietary trading of our staff and AEs (excluding our related persons) accounted for approximately 5.4%, 3.7%, 4.0% and 4.5% of our Group's total revenue for the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, respectively.

The table below sets out the breakdown of revenue derived from the dealings of our staff and AEs (excluding our related persons) for the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019:

	For the year ended 31 March				For the four months ended 31 July			
	2017		2018		2019		2019	
	Revenue generated by our staff and AEs	Approximate percentage of our Group's total revenue	Revenue generated by our staff and AEs	Approximate percentage of our Group's total revenue	Revenue generated by our staff and AEs	Approximate percentage of our Group's total revenue	Revenue generated by our staff and AEs	Approximate percentage of our Group's total revenue
	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)
Securities dealing and brokerage services	704	2.0	867	1.5	629	1.0	631	2.5
Securities margin financing services	1,212	3.4	1,216	2.1	1,868	2.9	477	1.9
Handling and other fee income	20	0	32	0.1	42	0.1	26	0.1
Total	1,936	5.4	2,115	3.7	2,539	4.0	1,134	4.5

The above amounts of commission generated by our staff, AEs or related persons are not indicative of the future trading volume of related persons which may be transacted through Sinomax Securities. Their prospective trading volumes would be determined by factors such as their investment preference and strategies (which may be influenced by prevailing market conditions), and whether they will continue to use our brokerage services.

Subject to applicable exemptions, we will comply with all applicable requirements under Chapter 14A of the Listing Rules in respect of any connected transactions proposed to be entered into between our Group and any of our related persons who fall under the definition of "connected persons" in the Listing Rules. Our Company has also undertaken to the Stock Exchange that we will disclose all transactions of our Group with our related persons, if any, in each of our annual reports following the Listing.

OUR SUPPLIERS

We have no major suppliers due to the nature of our business activities. Over the Track Record Period, we engaged various service providers to provide services necessary for our business operations, such as software vendor, overseas brokers, internet service providers and the Stock Exchange, all of which are Independent Third Parties.

To the best knowledge of our Directors, none of our Directors, chief executives, or any person who owns more than 5% of the issued share capital of our Company or any of its subsidiaries, or any of their respective close associates, has or had any interest in any of our service providers during the Track Record Period. All of our service providers during the Track Record Period are Independent Third Parties.

SALES AND MARKETING

Our staff dealers, AEs and responsible officers are responsible for performing sales and marketing activities of our brokerage business, margin financing business and placing and underwriting business, in particular, referring new clients to our Group, maintaining clients' relationship with us, promoting our services to new and existing clients and handling clients' enquiries. We generally source new clients and expand our business network through the personal networks of our management and our AEs as well as referrals from our existing clients through the word-of-mouth. Approximately 96% of the respondents to the 2019 client survey indicated that they learnt about us through referrals from others.

For our placing and underwriting business, our responsible officers are involved in pitching and liaising with our placing and underwriting clients; and our staff dealers and AEs are responsible for sales and marketing activities, including maintaining regular communication and good relationships with clients, other business partners and professional parties involved in placing and underwriting transactions.

OUR COMPETITION

The financial services industry in Hong Kong is highly competitive. Details of the competition that our Group currently faces and will continue to face are set out in the section headed "Industry overview" in this prospectus.

Securities brokerage business

In 2019, there were 704 HKEX Participants in Hong Kong, which were divided into Categories "A", "B" and "C" HKEX Participants. Categories A and B HKEX Participants (including multinational financial services corporations and investment and retail banks) have a consolidated position in the market typically serving both institutional trading and retail trading, and they accounted for in aggregate approximately 91.4% of total market turnover in 2018. Category C HKEX Participants, which we are categorised under, are mainly local brokerage service providers focusing on retail trading and which typically also provides margin financing and investment advisory services.

The number of HKEX Participants under Category C recorded an overall increase from 478 in 2013 to 639 in 2019, representing a CAGR of 4.1%. Competition in this category is intense, and service providers in this category is often required to offer unique services as well as develop effective and user-friendly trading platforms to differentiate themselves from their counterparts.

Some securities brokerage firms have also adopted aggressive marketing strategies to take advantage of the opportunities to grow their client base and expand their market share; in particular, price competition among brokerage firms has resulted in a decrease in rate of commission paid in the overall market in recent years.

Such price competition however did not have a material adverse impact on our Group over the Track Record Period, as we do not, and do not intend to, participate in price competition nor do we offer plans (such as monthly-fixed-charge plans or commission ceiling plans) to remain competitive. Rather, we make every effort to compete effectively with other market players by: (i) staying in touch with the market to understand clients' needs and competitors' tactics; (ii) seeking to capture new clients through marketing efforts and capitalising on opportunities presented to our Group through implementation of our business strategies; (iii) satisfying existing clients by delivery services up to their expectations with a view of increasing client referrals; (iv) recruiting suitably qualified and experienced staff with sound relationships with clients in order to provide quality and personalised services to clients; (v) improving our service offerings and capabilities to cater for changes in market conditions; (vi) maintaining an efficient and lean cost structure through the employment of AEs; and (vii) building on our brand recognition and reputation that has been developed over the years.

Our Directors believe that the Listing will have a positive impact on the brand, public awareness and visibility of our Group, increase our financial and operational transparency, and increase our accountability with the public. Our Directors believe that this should enhance our competitiveness against other financial service providers providing similar services as us.

Ranking

Based on annual rankings issued by the Stock Exchange, our securities brokerage business was ranked 151 as at 31 December 2018 among active HKEX Participants (based on transaction volume with reference to trading fee and transaction levy charged on trades executed through the Stock Exchange). The ranking of our brokerage business improved significantly from our ranking of 277 as at 31 December 2013, and our Directors believe that this was attributable to the synergy driven by the development of our placing and underwriting services. Please refer to the paragraph "Competitive strengths" for further details.

Securities margin financing business

According to the Ipsos Report, a number of securities brokerage firms also provide margin financing services, and the total number of securities dealers and securities margin financiers has experienced an increase from 927 in 2013 to 1,312 in 2018. This corresponds to an increase in active margin clients from 150,545 in 2013 to 463,970 in 2018 (representing a CAGR of approximately 25.2%) as well as increase in margin loan receivables from approximately HK\$85.8 billion in 2013 to HK\$180.8 billion in 2018 (representing a CAGR of approximately 16.1%), evidencing a strong growth in demand for margin financing services.

According to the Ipsos Report, margin financiers mainly compete in terms of administrative costs, commission rates and margin interest rates, and given the capital-intensive nature of the business, maintaining a sufficient stream of capital and liquidity is critical for margin financiers to remain competitive. In particular, margin financiers capable of obtaining multiple sources of funding as well as generate internal capital resources would possess a competitive edge in capturing margin financing demand. As such, our Directors intend to use part of the net proceeds from the Share Offer to increase our margin book to remain competitive in the market.

Placing and underwriting business

According to the Ipsos Report, the placing and underwriting services market in Hong Kong is considered a consolidated and mature market dominated by few top market players who provide a wide range of investment banking services. The scale of our placing and underwriting business is considered boutique in comparison, and our revenue generated from providing placing and underwriting services only accounted for approximately 0.03%, 0.11% and 0.13% of the total revenue generated by this business sector in Hong Kong in 2016, 2017 and 2018 respectively, but we consider this an opportunity for growth in the future.

As a placing and underwriting service provider, it is vital for us to maintain good relationships with our clients and investors and have a proven track record of fundraising supported by deep understanding of the market or industry and sufficient experience in advising on execution strategies, market timing, placing and allocation. As we continue to develop our placing and underwriting business, we intend to leverage on our loyal and expanding retail client and investor base and devote further resources (including engaging research analysts to provide reports to support our equity capital markets department) to enhance our execution capability in providing placing and underwriting services.

We have to compete with other market players, who may have more resources, offer a wider range of services and have a longer operating history than that of our Group. Such firms may leverage on their existing relationship with other companies, expertise, financial strength and established reputation to compete in the market. Our Directors believe that competition in this market is primarily based on the quality and scope of services offered, market reputation, business network, pricing, and human and financial resources.

RISK MANAGEMENT AND INTERNAL CONTROL PROCEDURES

Risk management objectives

We recognise the need for risk management in our strategic and operational planning, day-to-day management and decision making process and are committed to managing and minimising such risks by identifying, analysing, evaluating and mitigating risk exposure that may impact on the continued efficiency and effectiveness of our operations or the risks which prevent us from achieving our business objectives.

Our risk management objectives are to (i) identify and effectively manage risks which our Group may face from time to time; (ii) establish strong review and rectification processes and contingency procedures in order to prevent material financial and reputational losses; and (iii) ensure our ongoing business continuity and performance.

Our risk management department is responsible for periodic review, and reports to our credit committee and/or senior management on, among other things, the status of securities accounts of clients, analysis of securities financing or margin loan portfolio of our Group, credit limits granted by us, stock marginable ratios, and our credit control policy.

Our principal risks

The risks identified by our Group are broadly categorised into the following risks, all of which may arise from time to time in connection with the operations of our Group:

- (i) **regulatory risk:** as Sinomax Securities is a licensed corporation registered with the SFC, it is required to comply with ongoing obligations prescribed by the SFO, its subsidiary legislations as well as the codes and guidelines published by the SFC from time to time (including, without limitation, the Code of Conduct, the Internal Control Guidelines, the FRR and rules relating to handling of client monies and securities and maintenance of proper records) and to satisfy the SFC that it continues to be fit and proper under the requirements of the Fit and Proper Guidelines. Any failure to comply with the relevant SFC laws and regulations may expose us and our responsible officers and licensed representatives to potential fines, penalties, proceedings, and may potentially lead to the suspension or revocation of our SFC licences. In addition to the SFO, its subsidiary legislations, codes and guidelines published by the SFC from time to time, we are also required to comply with other laws and regulations of Hong Kong and, in respect of our marketing activities, those of the PRC;

- (ii) **operational risk:** we are subject to operational risks during the course of our business which may result from matters such as failure of, disruption to, or inadequacies of our online trading platform and/or IT system, failure of our overseas brokers to provide required trading services, unidentified limit excesses, unauthorised or fraudulent trading, failure in keeping requisite books and records, inexperienced personnel or lack of understanding of internal controls by our personnel. The failure to manage these risks may potentially lead to a financial loss to our clients or cause us to be in breach of the SFO, its subsidiary legislations, codes and/or guidelines published by the SFC from time to time;
- (iii) **liquidity risk:** Sinomax Securities is required at all times to maintain liquid capital (being the amount which our liquid assets exceeds our ranking liabilities, taking into adjustments to cater for market risks and contingency), which is not less than the specified amounts under the FRR. Sinomax Securities also has an obligation to notify the SFC in certain circumstances where there has been a material change to the liquid capital position and to prepare periodic financial returns for submission to the SFC. If Sinomax Securities fails to meet the FRR requirement, it is required to immediately cease its licensed operations and the SFC may suspend its licence. In addition, the failure to maintain sufficient liquidity may result in the instigation of legal proceedings by clients if they are unable to withdraw funds on time; and
- (iv) **trading risk:** our staff dealers and AEs review the balance and margin status of our client accounts on a daily basis. Where a client fails to maintain the maintenance margin in respect of securities which are held by him/her, the responsible staff dealer and AE will contact the relevant client to cover the shortfall, and where the client fails to meet the shortfall within the required timeframe, the responsible staff dealer and AE will exercise discretion as to whether or not to liquidate the relevant securities. When the loss which a client may suffer exceeds the money deposited by that client as initial margin, Sinomax Securities may be exposed to risks from (i) deficits in the client account if it does not liquidate the securities in time; or (ii) the failure or refusal of such client to pay for deficits he/she is liable for in his/her client accounts. This may also affect our liquid capital in meeting FRR requirements.

Risk management committee

We have established a risk management committee to identify, evaluate and manage risks arising from our operations. Our risk management committee comprises Mr. Ng, the head of our risk management department and the head of our risk management committee, and Mr. Sy and Ms. Sze Suk Ling, who has over 30 years of experience in the financial services industry including, but not limited to, experience in the provision of brokerage services, compliance and risk management. Both Mr. Sy and Ms. Sze Suk Ling are our responsible officers. Our risk management committee is responsible for establishing policies, limits and operational guidelines for (i) monitoring and reporting processes undertaken to ensure compliance with applicable laws, rules, regulations and the Code of Conduct; (ii) evaluating the need for enhancing our policies and operational guidelines and making proposals for effective risk management; and (iii) preparing and carrying out our plans relating to risk management. Our

risk management committee will also meet from time to time to discuss, assess, review, analyse and rank different risks that different business divisions of Sinomax Securities face, and rank the level of risk of our monthly top ten clients of each business activity. We have adopted credit control procedures in our ordinary course of business to minimise our exposure to credit risks.

Our Directors have confirmed that during the Track Record Period, we did not experience any material operational failure and they believe that our risk management system is sufficient and effective.

Internal control procedures

As Sinomax Securities is a licensed corporation registered with the SFC, it is required to comply with its ongoing obligations prescribed by the SFO, its subsidiary legislations as well as the codes and guidelines published by the SFC from time to time. In particular: (i) the Code of Conduct requires that 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 omission; and (ii) the Internal Control Guidelines sets out the manner in which licensed corporations should structure, manage and operate the regulated activities for which they are licensed and in particular, the existence of satisfactory internal control and internal management systems, and states that the failure to substantially follow the guidance tends to reflect adversely on the licensed corporation's fitness and properness.

In order to ensure that Sinomax Securities is compliant with these requirements in relation to internal controls and management systems, we have adopted certain internal controls and procedures (including operational controls, controls on dealing practices as well as internal controls to manage risks) which are implemented as part of our operations, and regularly review regulatory updates and enforcement news from the SFC.

Our compliance department is responsible for conducting periodic reviews of internal control policies and procedures, including but not limited to corporate governance, KYC, risk management and anti-money laundering. Such internal control policies and procedures are implemented by each operation department. Our responsible officers are responsible for overseeing the day-to-day operations of these departments and ensuring that the internal policies are adhered to. Our compliance department is led and supervised by Mr. Sy, our responsible officer, an executive Director and the chief executive officer of our Group. Please refer to the section headed "Directors and senior management" of this prospectus for details of Mr. Sy's qualifications and experience.

All of our operational staff are responsible for implementing our internal control measures based on our established policies and procedures, and our responsible officers are responsible for supervising the day-to-day activities of our operational staff in order to ensure that these policies and procedures are duly followed.

All our staff are provided with written operational and procedural manuals covering all our guidelines which must be followed by each of them in the course of their work. These manuals have taken into account of the Internal Control Guidelines and are designed to ensure that: (i) our business is conducted in an orderly, efficient and compliant manner; (ii) the assets of our Group and our clients are secured; (iii) proper records are maintained and financial information is properly documented; and (iv) the risk of potential fraud is detected and prevented.

Below are some key internal control procedures which are outlined in our operational and procedural manuals:

1. *Controls for managing regulatory risks*

(i) Dealing on behalf of clients

While most of our clients effect trades through our online trading platform, some of our clients place orders through our staff dealers and AEs. Our staff dealers and AEs are required to take all reasonable steps in handling clients' orders promptly and fairly according to our clients' instructions. Orders of clients should have priority over orders in our staff dealers and AEs' own trading account or trading account of another staff dealer or AE.

Our staff dealers and AEs are required to immediately record instructions of all client orders with sufficient particulars. The identity of our client must be verified before any order is taken. A full audit trail for every order placed on behalf of our clients and any amendments thereto are fully maintained.

(ii) Phone trading

When order instructions are received from our clients via telephone, our staff dealers and AEs are required to record our client's order instructions through our telephone recording system in our office. The telephone recordings must be kept for at least six months.

(iii) Trading errors

Trading errors may occur due to system or human error. It is our policy that any trading errors which are detected by our staff dealers and AEs must be immediately reported to the supervising responsible officer present during the relevant time. In a case where our staff dealers or AEs mistakenly execute our client's order, the responsible staff dealers or AEs shall complete a form for documenting such trading mistake, which shall be checked and approved by our responsible officers. Such trading error should be booked into our House Accounts. The responsible staff dealer or AE should submit the trading error report (which records details of and explanations for the error) immediately to our responsible officer for verification of the error or mistake. The daily order book and report generated from the BSS will be kept by our back office department for back up and audit trail purposes.

In order to reduce market risks, our responsible officers will take immediate actions to close out the error trade positions and recognise gains or losses from any error trades at the market value as soon as possible. An order amendment report in relation to trading error should be prepared by the responsible staff dealer or AE, verified by our responsible officers, and passed to our settlement department and accounts department for record purposes. The order amendment report shall include the following particulars, as applicable: (i) the date and time of the trading error; (ii) the name of responsible staff dealer or AE; (iii) the client name and account number; (iv) the unit price of the relevant securities; and (v) the stock code and quantity.

Our responsible officers and the directors of Sinomax Securities will perform periodic review on the statement of the House Account for the purpose of internal control. All order amendment reports are subject to regular compliance review by our compliance department and independent review by our auditors at the end of each financial year.

(iv) Staff dealings

We require our staff and AEs to obtain our prior approval for opening trading accounts with other brokerage firms and they are required to report to us on their trading activities in those outside trading accounts.

Pursuant to the Code of Conduct, employees of a licensed corporation are generally required to deal through their employer licensed corporation, unless otherwise permitted by their employer. Our policy provides that our staff and AEs are not encouraged to open accounts with other brokerage firms except for the sole purpose of dealing in securities which are not offered by our Group. Before our staff dealers and AEs open any outside account with other licensed corporations, they must obtain prior written approval from our responsible officers.

When approval has been granted, a letter of consent signed by our responsible officer with a request for a duplicated statement to be provided to us shall be sent to the concerned brokerage firm. Our staff dealers and AEs must report details of their dealings in securities to our responsible officers, if they have not traded through our Group. They must provide copies of statements for their trading transactions through such accounts to our compliance department for our management to review. Moreover, our staff members are personally responsible for promptly declaring their securities transactions and any changes in their personal trading accounts with other brokerage firms and maintaining trading records and statements for audit trail purposes. The documentation will be kept by our compliance department separately pursuant to our internal policy.

We have maintained a list of trading accounts of our staff and AEs with other brokerage firms. We also send periodic emails or reminders to our staff dealers and AEs to remind them of their responsibilities of declaring securities transactions and changes of personal trading accounts with other brokerage firms.

For details of the revenue generated from our staff and AEs, please refer to the paragraph headed “Staff and AEs dealing” in this section.

(v) Handling of complaints from clients

We have established procedures for handling complaints from our clients. All complaints whether written or verbal have to be reported to Mr. Sy, our complaints officer as recorded in the public register of licensed persons and registered institutions, and a register must be kept for all complaints including details such as the name of the complainant, the date of receiving the complaint, a brief description of the complaint and the date of the response.

Mr. Sy shall assign the complaint received to an independent designated staff member for handling. The designated staff member shall investigate and analyse the complaint in a just and fair manner, identify possible solutions and report to Mr. Sy from time to time. The independent designated staff member must ensure that the complainant's perspective is given appropriate consideration in the decision making of Sinomax Securities. Mr. Sy will propose appropriate remedial steps to be taken following investigation and consultation with relevant staff and to ensure that the matter can be dealt with on a timely basis. This may involve attempting to provide alternative solutions for our client.

Where it can be ascertained that the matter does not involve any fault of Sinomax Securities or its staff and we are not prepared to offer alternative solutions, the complainant will be advised to contact the relevant regulatory bodies such as the Financial Dispute Resolution Centre or lodge a complaint with the SFC directly.

If the matter is of material importance (for example, relate to a regulatory or contractual breach), the matter may be elevated to our senior management for further discussion as to what further actions are to be taken (for example, reporting the incident to the SFC in respect of a regulatory breach or preparation of defence of a potential claim).

Mr. Sy will record all relevant details and investigation results in the complaint log (attaching all relevant documentation) and the complete file will be kept in our records for future retrieval if necessary.

During the Track Record Period, we did not receive any complaint with the SFC, the Financial Dispute Resolution Centre or the Hong Kong Consumer Council. Our Directors confirm that our Group did not receive any pending or threatened claims or proceedings in respect of any complaint during the Track Record Period up to the Latest Practicable Date.

(vi) “Chinese wall” and segregation of duties and functions

We have implemented a “Chinese wall” policy to avoid conflicts of interest. We assign duties and functions to different departments and maintain “Chinese walls” between our different departments. Under the policy, all confidential information must not be disclosed to other staff who are not members of our senior management except where it is considered necessary in the course of business, provided always that any disclosure is made with the prior confirmation of the senior management of Sinomax Securities on a need-to-know basis. Commercial and/or price sensitive information shall only be passed to the staff of Sinomax Securities when there is a legitimate “need to know” on the part of the recipient and the transfer of information is in the best interests of our client.

In particular, each staff member is assigned with a unique username and password, and the access to computer drives and certain files located in certain computer drives can be and is restricted by usernames and passwords. Moreover, all staff dealers and AEs are also provided with unique usernames and passwords to log into their own computers in our office and to carry out trading activities on behalf of their responsible clients. No AE can act on behalf of other AEs, and our staff dealers only have authority to place trade orders on behalf of specific clients when the relevant AEs are on leave. Our trading system traces all orders placed in all of our clients’ accounts to ensure that there is no unauthorised trading activity and all trading activities are properly documented.

(vii) Segregation of client money and securities

Pursuant to Securities and Futures (Client Money) Rules, Sinomax Securities shall maintain and keep one or more segregated accounts at one or more designated licensed banks. Our finance and accounting department shall deposit all monies received from or on behalf of our clients into a segregated account within one Business Day after such client monies are received and verified.

When an inflow deposit is detected in our bank account, our operation staff generate and verify the deposit proof provided by the responsible staff dealer, AE and/or our client. Once the client deposit is identified, our accounting staff verify the identity of the depositing client and prepare corresponding accounting entries and vouchers for recognising such client deposit in the ledger account and fund reallocation to the designated bank account, which is a segregated trust bank account. Relevant account entries and vouchers will be reviewed and approved by our chief financial officer or our responsible officer on a daily basis.

Pursuant to the Securities and Futures (Client Money) Rules, after the market closes daily, our accounting staff will verify with our settlement department and our AFE G3 back office system, the net cash flow required for settlement of our client transactions and prepare corresponding fund reallocation from our segregated bank accounts.

Our accounting staff conduct bank reconciliation to ensure that our trust account and House Account are correctly separated and match our ledger balance on a daily basis. If any discrepancies are discovered, (other than the time difference of fund allocation which is within one Business Day), the reason for the discrepancy and remedial actions undertaken should be promptly identified and recorded in the daily reconciliation report, which should subsequently be reviewed and approved by our chief financial officer and our responsible officer.

(viii) Segregated stock accounts

We are also required to maintain a proper record of all deposits and withdrawals of our clients' stocks. In order to protect our clients' assets effectively, segregated accounts shall be maintained in CCASS by a designated code to identify the position of a specified client. Securities received in our CCASS clearing account should also be re-allocated to CCASS designated segregated client accounts within one trading day from the relevant transaction day. The transfer of securities from one client's account to another client's account without proper monitoring and approval is prohibited. All stock certificates of our clients shall be kept in the safe of Sinomax Securities, pending their disposal, collection by clients or deposit with CCASS.

(ix) Anti-money laundering and counter-terrorist financing

Our staff are required to comply with the anti-money laundering guidelines adopted by us which are designed to detect and prevent money laundering and counter-terrorist financing activities. These guidelines involve:

- (a) *client due diligence*: to satisfy our due diligence requirements, our staff dealers or AEs are required to identify and verify the identities of beneficial owners of a client account with reference to data and/or information provided by reliable and independent sources. For individual clients, our AEs will request identification documents to verify their name, date of birth and residential address. For corporate clients, we will request corporate documents to verify their incorporation and existence, the authority of persons instructing us to open the account, as well as the identity of directors and shareholders. For clients who reside in the PRC, we rely on persons accredited to licensed or registered entities affiliated to our Group to sign and certify identification documents;

We will screen the client for any politically exposed person (“**PEP**”) by undertaking a search on a database that we subscribe to. It is our policy to require our staff to take reasonable steps to determine whether a client is a “higher-risk client”, such as senior government official or political figure or his/her immediate family member. We generally do not permit the opening of client accounts by persons from countries listed on the Financial Action Task Force (“**FATF**”) website: <http://www.fatf.gafi.org>. The results of the screening of our clients must be fully investigated and documented. Our employees must report any transactions or relationships they have or have had with any named individuals or entities to our senior management who would then report the same to the JFIU;

- (b) *ongoing monitoring*: our responsible officers, compliance officers, staff dealers and AEs are responsible for reviewing documents, data and information relating to our clients at least every two years. They are also responsible for monitoring the activities of our clients and identifying those transactions that are complex, large or unusual;
- (c) *monitoring business relationships continuously*: we are required to monitor on an ongoing basis, our business relationships with each client and observe the transactions he/she/it undertakes to ensure that the transactions are consistent with our knowledge of his/her/its information, including business background and risk profile, and where appropriate, source of funds. Where transactions are complex, large or unusual, or patterns of transactions have no apparent business rationale, we should examine the background and purpose, including, where appropriate, the circumstances, of the transactions. The findings and outcomes of these investigations should be properly documented in writing and be available so as to assist the SFC and other competent authorities as required. Proper records of decisions made, by whom, and the rationale for them will help us demonstrate that we are handling unusual or suspicious activities appropriately. All high-risk clients must be reviewed at least on an annual basis.

If the securities trading account does not carry out any trading for more than two years, we are entitled to suspend the account and the specific client should provide updated identification documents to verify his/her/its identity;

- (d) *reporting knowledge or suspicion of money laundering*: we have an obligation to report to the JFIU where there is knowledge or suspicion of money laundering or terrorist financing activities. Our compliance department acts as our money laundering reporting officer, who is responsible for reporting suspicious transactions to the JFIU under our money laundering or terrorist financing reporting obligation;
- (e) *keeping adequate records*: the JFIU needs to ensure a satisfactory audit trail for suspected laundered money and we must establish a financial profile of the suspect account. All records on transactions, both domestic and international, should be maintained for at least seven years after the completion of a transaction, regardless of whether the business relationship ends during such period. Such records must be sufficient to permit reconstruction of individual transactions (including the amounts and types of currencies involved, if any) so as to provide, if necessary, evidence for a criminal prosecution;
- (f) *suspicious activity reporting and recording*: our AEs are required to notify our responsible officers and compliance officers of any suspicious activity. Where after an assessment, it is determined that such activities are indeed suspicious, a suspicious activity report will need to be prepared and submitted to the JFIU as soon as possible (in any case no longer than 30 days from the date of detection of the suspicious activity). All related information will be recorded and all relevant documentation must be properly kept, so that we are in a position to assist in any potential investigations that may be launched by any government authority; and
- (g) *training for our staff and AEs*: training on anti-money laundering and counter-terrorist financing will be provided to our new employees, such as staff dealing directly with our clients, back-office staff, managerial staff, including internal audit officers, compliance officers and the money laundering reporting officer, to ensure that they are aware of the updated rules and regulations and their personal obligations under the relevant legislation and guidelines and that they may be personally liable should they fail to report as required. Refresher training will also be provided regularly to generate and maintain a level of awareness and vigilance to enable suspicious transactions to be recognised and reported.

During the Track Record Period, we did not become aware of any clients or transactions suspicious of money laundering or terrorist financing activities.

(x) *Handling of physical cash*

Our Company ensures that all cash held physically are properly secured so as to avoid loss or misuse. In addition, to prevent the risk of being involved in money-laundering or terrorist financing activities unintentionally, we have implemented the following procedures:

- (i) we do not encourage our clients to perform cash deposits and, our clients are required to confirm their deposit with their signature on the bank advice slip if there is no record identifying the depositor;
- (ii) if the depositor is not an account holder with us, the name of the depositor will be recorded in the settlement system and shown in fund movement history, and the relationship between the depositor and the account holder must be properly recorded;
- (iii) for fund withdrawal made by a third-party, original written instructions should be obtained from client before processing the fund withdrawal, and the relationship between the third-party and the client as well as the reason for such transaction should be properly recorded; and
- (iv) for accounts which have more than five times of third party deposits or withdrawals within the past 6 months and the amount of each transaction is over HK\$5,000,000, all the funds deposited and withdrawn in such accounts would be monitored by our risk management team every 6 months.

No third party deposit or suspected deposit from a third party is allowed, except from the close family members of our clients provided that our clients remain as beneficial owners and we have received sufficient documentary proof. We may refuse any deposits from a third party and reverse the fund deposit to the depositor or payer. For any unavoidable circumstances, such as legal order or repayment of called outstanding amount, further steps have to be taken to verify the relationship between the depositor and such client and identify the reason for the deposit on behalf of such client. The approval from our responsible officer should be obtained before we accept such deposits. Our compliance department should be notified of any approved third party deposit for review purposes. In cases of transactions involving the risks of money laundering or terrorist financing, our staff dealers or AEs are required to promptly report to our compliance department for a follow up;

(xi) Conflict of interest

Being a financial services firm, we recognise the importance of managing conflicts of interest in protecting our clients' and our own interests. We have put in place policies prohibiting our staff from engaging in any transaction in which they have an actual or potential conflict of interest. Where a conflict of interest arises, our staff must promptly make a report to the management. Our staff should neither advise, nor deal, in relation to the transaction unless such conflict of interest has been properly disclosed to our client and all reasonable steps have been taken by our staff to ensure that our client is being treated fairly. Our staff members are required to take all reasonable steps to avoid situations that are likely to involve conflicts of interest. Our staff must not place his/her interest above our clients' interest and must withdraw from or decline to accept entering into the transaction where he/she has a material conflict of interest in the transaction. Conflicts of interest must be disclosed to our client before proceeding with the transaction and such disclosure must include sufficient details to enable our client to make an informed decision with respect to granting permission to proceed with the transaction. If our staff fails to declare a case of conflict of interest pursuant to the Code of Conduct, he/she shall be liable to account to our Company for any profit made or benefit received from or in respect of such failure or violation; and

(xii) Restricted list

Our compliance department is responsible for maintaining the restricted list and monitoring clients' trading and staff dealings. The restricted list is a confidential list of stocks of public listed companies maintained by the compliance department which our Group has received a mandate or has worked and/or is currently working with. The maintenance of the restricted list enables our responsible executive Directors and the compliance department to supervise the activities within Sinomax Securities and monitor the possession of inside information obtained by our staff in the course of undertaking their duties. When we have obtained such price-sensitive information, we have a duty to keep such information confidential.

2. Controls for managing operational risks

(i) Responsible officers

Under section 125 of the SFO, we, as a licensed corporation, are required to appoint at least two responsible officers for each type of regulated activity, at least one of whom must be an executive director who: (i) actively participates in; or (ii) is responsible for directly supervising, the business of a regulated activity for which the corporation is licensed.

The responsible officers of Sinomax Securities are either the executive Directors or senior management of our Group and they are mainly responsible for: (i) supervising the daily operations of our staff; (ii) formulating, reviewing and updating our operations procedures to ensure our Group's compliance with regulatory requirements; (iii) reviewing and improving the current workflow and operation procedures; and (iv) monitoring compliance issues in relation to the FRR requirement.

(ii) IT related controls and contingency plans

We have in place an IT security policy and rules to safeguard the security and integrity of our online trading system and IT infrastructure. Under such policy and rules:

- (a) access controls are in place so that the use of our IT system by users (including our staff, clients, independent software vendors and back-office staff) are restricted based on authorisation levels prescribed by our senior management, and password policies and standards are formalised to facilitate user authentication and access control;
- (b) our computer system and information processing facilities are protected by firewalls and anti-virus software to prevent and detect any potential threats by computer viruses and other malicious software;
- (c) we closely monitor the stability and performance of our online trading system and IT infrastructure as well as any intrusions or access by unauthorised persons. We liaise with our external service providers to rectify any irregularities detected by our online trading platform or IT system if such irregularities are attributable to services provided by them. Further, we monitor the usage of our bandwidth capacity or our network connections regularly to ensure that it would be sufficient to meet the trading demands of our clients. Generally, we set an adequate buffer for our bandwidth capacity to cater for any unexpected high volume of trading resulting from market volatility;
- (d) any software or hardware changes or upgrades of our online trading system or IT infrastructure are thoroughly tested in our user acceptance system during market rehearsal sessions and/or before being used for actual client trading; and
- (e) we have devised IT related controls and contingency plans with backup procedures in place to ensure the continuity of our operations without disruption due to the breakdown of our IT system. In particular, our IT vendor maintains a back-up data storage centre, and all trading data and records processed through our online trading platform are simultaneously replicated in our main server storage as well as in our backup data storage centre. All of our clients' trading records can be retrieved from the backup data storage centre promptly in the event of any disruption to our main server storage. In the event where our software vendor goes out of business, our IT staff will coordinate with alternative software vendors and retrieve all trading data physically for migration into the new platform, which is estimated to take up to five Business Days. In the event of a system failure of our BSS system, all clients' instructions will have to be transacted through NSTD terminals, which we use as a back up trading channel in such circumstances.

3. Controls relating to liquidity and trading risks

(i) Managing liquidity risks

Liquidity risk refers to the risk of us not having sufficient funds to meet our liabilities as they fall due. We are required to maintain at all times a liquid capital which is not less than the minimum requirement as set out in the FRR. Our accounting department is responsible for preparing financial returns and computing liquid capital in accordance with the requirements of the FRR. Our monthly financial returns are submitted to our responsible officers for review and approval before being submitted to the SFC no later than three weeks after each calendar month.

Our risk management committee monitors and manages our market liquidity risk, while our accounting department monitors and manages our cash flow liquidity. Our risk management committee and our accounting department report to the board of directors of Sinomax Securities so as to take appropriate action when necessary. During the Track Record Period, our Group did not have any material non-compliance with the minimum liquid capital requirement as set out in the FRR.

(ii) Managing credit risks

Credit risk refers to our risk of suffering from losses due to the default of clients when they fail to perform their respective obligations when due. We manage our credit risk through credit assessment, credit limit approval and continuous management of credit exposure.

Our securities brokerage services and securities margin financing services are both susceptible to credit risks should our clients fail to fulfill their payment obligations. As a result, we have adopted a set of credit policies for the credit risk management of our Group, for our credit control committee to oversee the overall credit risk exposure of our Group. Meanwhile, our risk management committee is responsible for, among others:

- (i) approving and monitoring the credit limits and other matters related to the credit risk of our Group, including margin financing, repayment schedules and the interest rates applicable in cases of any overdue debit balances of our clients' securities trading accounts; and
- (ii) setting up, approving and reviewing effective credit risk management measures and systems of our Group from time to time, to ensure such measures and systems are duly implemented and enforced, and adjust those measures when appropriate.

Our executive Directors and senior management believe that our credit policies are effective in minimising our Group's exposure to credit risks in our securities dealing and brokerage services and margin financing services when clients fail to fulfill their payment obligations.

For our securities dealing and brokerage services, our clients settle their securities transactions in Hong Kong within two Business Days after the transaction date (on a T+2 basis). For securities transactions carried out in overseas markets, we will comply with the relevant overseas laws and regulations. Our Group is exposed to credit risk if a client is unable to pay for the said transactions in the intervening period between trade execution and settlement. As a result, a credit limit is initially assigned to each client to mitigate the abovementioned credit risk. A credit limit is the amount of credit exposure which our Group can accept for a particular client for the duration of the T+2 period. Clients are not allowed to execute further securities purchases once their credit limit has been reached. The credit limit can be increased by approval of our credit control committee.

In respect of our margin financing business, we have implemented margin call procedures and daily margin control. For details, please refer to the paragraph headed "Our business model – (A) Securities trading services – (c) Margin financing services" in this section.

(iii) Managing trading risks with overseas brokers

We have implemented the following procedures to ensure that trades are properly placed and traded with overseas brokers:

- (i) Only our responsible officers are allowed to handle our clients' orders for trading overseas securities, who will place the order through the account maintained with the overseas brokerage firm;
- (ii) The contents of an overseas securities transaction shall be manually inputted by the settlement staff, and the contents of the overseas securities trading order shall be checked and approved by our responsible officers; and
- (iii) Our settlement staff will cross check the transaction details upon the receipt of the daily trading contract or statement from the overseas brokerage firm before issuing the transaction statement to our client.

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.

LICENCES AND REGULATORY COMPLIANCE

The securities market in Hong Kong is highly regulated. The principal regulatory bodies governing our Group's businesses are the SFC and the Stock Exchange. For details, please refer to the section headed "Regulatory overview and licensing requirements" in this prospectus. Our Group's businesses are subject to a number of legislations and regulations, as well as rules, codes and guidelines issued by the SFC and the Stock Exchange.

As at the Latest Practicable Date, our Group held the following licences and certificates to carry on the business activities as described in this prospectus. Each of the licences and certificates has no expiry date and will remain valid unless they are suspended or revoked by the SFC or the Stock Exchange, as applicable.

Licence/certificate holder	Licence/certificate	Date of first issue/admission
Sinomax Securities	Exchange Participant Certificate	18 February 2002
	Exchange Trading Right Certificate	18 February 2002
	HKSCC Direct Clearing Participantship	1 March 2002
	Licence under SFO to carry on type 1 (dealing in securities) regulated activities	30 November 2004
	Licence under SFO to carry on type 4 (advising on securities) regulated activity	19 August 2016
	Licence under SFO to carry on type 9 (asset management) regulated activity	19 August 2016

Our Directors confirmed that our Group had obtained all the necessary licences, permits, certificates and participantships which were required to carry on our Group's activities as set out in this prospectus as at the Latest Practicable Date.

As confirmed by our Directors, save as disclosed in the paragraph headed "Non-compliance and disciplinary actions" in this section of the prospectus, during the Track Record Period and up to the Latest Practicable Date, Sinomax Securities, our operating subsidiary being a licensed corporation under the SFO and a participant of HKEX, was in compliance with the relevant legislations, regulations, rules, codes, guidelines, and permits and licence requirements, in all material respects in performance of its relevant business in all relevant jurisdictions. Our Directors further confirmed that, to the best of their knowledge after due enquiry, during the Track Record Period, our Group (i) had not failed, or received any objection from the SFC or other relevant competent authorities in applying for SFC licences and the HKEX participantships; and (ii) had not committed any offence, violation or breach of laws or regulations in all relevant jurisdictions where it operates, save as disclosed in the paragraph headed "Non-compliance and disciplinary actions" in this section. As at the

BUSINESS

Latest Practicable Date, all staff members currently performing regulated activities for Sinomax Securities were properly registered under the SFO as either licensed representatives or responsible officers accredited to Sinomax Securities. Set out below is a table of the number of responsible officers and licensed representatives for each regulated activity as at the Latest Practicable Date:

Regulated activity	Number of responsible officers <i>(Note)</i>	Number of licensed representatives <i>(Note)</i>
Type 1 (dealing in securities)	4	9
Type 4 (advising on securities)	2	1
Type 9 (asset management)	2	2

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

The following table sets out the names of the licensed representatives for each regulated activity approved by the SFC as at the Latest Practicable Date:

Regulated activity	Licensed representatives
Type 1 (dealing in securities)	Ms. Chan Yuk Chun Mr. Choy Yuk Kwan Mr. Hong Ching Fat Mr. Lau Kwok Hung Ms. Lau Lai Wa, Mandy Mr. Lee Yiu Chung Mr. Li Ming Hei Mr. Pak Hung Kong Mr. Wai Chi Moon
Type 4 (advising on securities)	Mr. Pak Hung Kong
Type 9 (asset management)	Mr. Lee Yiu Chung Mr. Pak Hung Kong

Under the SFO, a licensed corporation shall not carry on any regulated activity unless not less than two responsible officers are approved by the SFC in relation to the regulated activity. Save as disclosed in this prospectus, our Directors confirmed that (i) during the Track Record Period and up to the Latest Practicable Date, Sinomax Securities had at least two responsible officers to supervise each of its regulated activities; and (ii) Sinomax Securities has maintained the required paid-up share capital and liquid capital under the FRR for conducting its regulated activities under the SFO.

BUSINESS

The following table sets out the names of the responsible officers for each regulated activity approved by the SFC as at the Latest Practicable Date:

Regulated activity	The name of responsible officer
Type 1 (dealing in securities)	Mr. Sy Ms. Sze Suk Ling Mr. Lam Mr. Ng
Type 4 (advising on securities)	Mr. Sy Mr. Ng
Type 9 (asset management)	Mr. Sy Mr. Ng

Non-compliance and disciplinary actions

As a statutory regulator, the SFC has the power to carry out inspections and reviews on licensed corporations at any time to ensure their compliance with relevant laws and regulations as well as codes and guidelines prescribed by the SFC. As a licensed corporation, Sinomax Securities may be subject to such inspections and reviews from time to time. Save for the matters disclosed below, our Directors confirm that our Group has 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 any members of our Group and/or our employees during the Track Record Period and up to the Latest Practicable Date.

Inquiry under section 56 of the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) (repealed and substituted by the SFO) by persons purporting to market securities

In January 2003, the SFC conducted a routine inspection on Sinomax Securities. During the inspection and the follow-up review in April 2004, unlicensed dealing activities at Sinomax Securities and a number of internal control failings were identified as follows:

(1) Unlicensed dealing activities

In April 2002 and February 2003, Chan Siu Tung, a former marketing assistant of Sinomax Securities, took and executed client orders, and confirmed trades with clients of Sinomax Securities without a license granted to him to do such activities. On 4 February 2004, Chan Siu Tung pleaded guilty to a summons of acting as a dealer's representative in Hong Kong without registration and was duly convicted.

Such conviction reflected Sinomax Securities had not implemented sufficient measures to prevent unlicensed dealing activities. In this incident, even though Chan Siu Tung was unlicensed, his computer was installed with full broker supplied system features. Although such installation was for training purposes, the SFC considered that, allowing Chan Siu Tung to have full broker supplied system access was unnecessary and premature and assisted his unlicensed dealing activities. Hence, Sinomax Securities failed to detect Chan Siu Tung's unlicensed dealing activities and failed to implement sufficient measures to prevent unlicensed dealing in breach of general principle 7 of the Code of Conduct and paragraph 12.1 of the Code of Conduct.

(2) Failure to establish client identity

Sinomax Securities required its staff dealers or AEs to verify the client's name, account number, identity card number and address before executing the client's orders. However, Sinomax Securities allowed its clients to bypass their staff dealers or AEs and to place orders directly to through licensed representatives who have not met such clients before.

According to paragraph 5.4 of the Code of Conduct, a licensed person should be satisfied on reasonable grounds about the identity, address and contact details of the person or entity (legal or otherwise) ultimately responsible for originating the instruction in relation to a transaction. Sinomax Securities failed to communicate to its staff as to such verification requirements and also did not have sufficient measures to enforce compliance with them.

(3) Improper segregation of client money

On 11 December 2003, and 12 and 15 January 2004, Sinomax Securities transferred client monies from its clients' segregated bank accounts to its house clearing bank account resulting in insufficient money being maintained in its clients' segregated bank account. In addition, Sinomax Securities did not give written notice to the SFC within one Business Day after it became aware of that incident of non-compliance as required by section 11 of the Securities and Futures (Client Money) Rules (Chapter 571I of the Laws of Hong Kong).

(4) Failure to obtain written direction to dispose of client money

On 12 February 2004, Sinomax Securities transferred money from one of its clients to another client without obtaining prior written direction which was in breach of section 5(1)(b) of the Securities and Futures (Client Money) Rules. It exposed both Sinomax Securities and its clients to unnecessary financial risk had the transfer instructions later been denied by the client from whose account the money was transferred. General principle 8 and paragraph 11.1 of the Code of Conduct both require a registered person to ensure that client positions or assets are adequately safeguarded.

(5) Inadequate audit trails

Prior to 26 March 2004, Sinomax Securities repeatedly failed to implement an adequate recording system to ensure that client telephone orders were properly recorded and that such recordings were kept for at least three months as required by paragraph 3.9 of the Code of Conduct.

In addition, Sinomax Securities allowed clients who placed orders in person to stamp their dealing tickets with a signature chop only, without requiring these clients to sign or initial their dealing tickets.

A comprehensive audit trail is important to ensure client orders are handled fairly and in accordance with the best execution rule and observation of client priority as required under the Code of Conduct.

Sinomax Securities has since rectified the said deficiencies.

After the inquiry, the SFC's preliminary findings on Sinomax Securities were:

- (i) failing to prevent and detect unregistered dealing in securities;
- (ii) failing to properly communicate to its staff its requirement to verify client identity;
- (iii) failing to maintain adequate funds in clients' segregated accounts;
- (iv) failing to obtain written directions for transferring client monies; and
- (v) failing to implement an effective tape recording system.

After taking into account (i) the co-operation of Sinomax Securities and its responsible officer, Mr. Luk Kam, including the settlements of the SFC's disciplinary actions, and their admission of the failings, in particular, Mr. Luk Kam's remorse for his failure; (ii) Sinomax Securities' clients did not appear to have suffered pecuniary loss as a result of Sinomax Securities' failures; and (iii) Sinomax Securities has since strengthened its internal controls, the SFC settled its disciplinary actions against Sinomax Securities and Mr. Luk Kam under the following terms:

(A) Sinomax Securities agreed with and undertook to the SFC that it:

- (i) admitted in full the failings found by the SFC;
- (ii) accepted a public reprimand;
- (iii) accepted a notice of decision, which was issued after Sinomax Securities' execution of the terms of settlement; and

- (iv) accepted that, the SFC, pursuant to section 201(4)(b) of the SFO was not obliged to comply with section 198(1) of the SFO by giving it a reasonable opportunity of being heard before issuing its decision under section 194 of the SFO;
- (B) Mr. Luk Kam agreed with and undertook to that the SFC that he:
 - (i) admitted in full his failing found by the SFC;
 - (ii) would pay HK\$40,000 to the SFC within seven (7) days from the date of last execution of the terms of settlement;
 - (iii) would pay the sum of HK\$40,000 from his own means and would not directly or indirectly seek reimbursement or indemnification of all or part of the said payment from Sinomax Securities or any other person including any insurer; and
 - (iv) accepted a notice of decision, which was issued after Mr. Luk Kam's execution of the terms of settlement;
- (C) the SFC would publish, on a date to be decided by the SFC but with one Business Day advance notice to Sinomax Securities and Mr. Luk Kam, a press release regarding the public reprimand of Sinomax Securities and the voluntary payment of Mr. Luk Kam. Such press release was published on 22 August 2005;
- (D) Sinomax Securities and Mr. Luk Kam each agreed and undertook that they would not, jointly or separately:
 - (i) publicly or otherwise dispute or comment inconsistently with the terms of settlement, the content of the press release, the notices of decision, and/or any event surrounding the disciplinary action against them; or
 - (ii) challenge the terms of settlement, press release and notices of decision, through application for review to the securities and appeals tribunal, judicial review or other means;
- (E) Sinomax Securities and Mr. Luk Kam each agreed that a breach of any or all of their respective agreements or undertakings in the terms of settlement would constitute a breach of the terms of settlement by the person or persons and would entitle the SFC to take further disciplinary action against that person or those persons who had committed the breach as appropriate;

- (F) subject to paragraph (D) above, in consideration of the agreements and undertakings given by Sinomax Securities and Mr. Luk Kam, the SFC agreed that so long as Sinomax Securities and Mr. Luk Kam respectively complied with their undertakings and obligations in the terms of settlement, the SFC would not take any further steps or disciplinary actions against them under section 56 of the SFO and/or section 194 of the SFO in respect of the matters found by the SFC; and
- (G) The SFC considered it appropriate in the interest of the investing public or the public interest to enter into the terms of settlement with Sinomax Securities and Mr. Luk Kam.

Findings of SFC inspection visit in October 2006

In October 2006, the SFC conducted a routine inspection on Sinomax Securities. During the inspection, the following breaches and deficiencies in the internal control procedures of Sinomax Securities were identified:

(1) Reporting of financial returns

The SFC noted from the review of Sinomax Securities' financial returns for August 2006 that Sinomax Securities had set-off against each purchase and sale by the same cash clients^(Note) of securities of different description due to be settled, which should be treated on a gross basis pursuant to section 11 of the FRR.

In respect of those receivables from cash clients^(Note) that were outstanding for settlement, Sinomax Securities had included in the liquid assets of account receivables from cash clients^(Note) which did not arise from the purchase of securities on a cash-against-delivery basis i.e. the securities being the subject of the purchase had been sold or withdrawn, which was not in compliance with section 21(1)(a) of the FRR. As a result, the amount of liquid capital was overstated by HK\$4,394.

Sinomax Securities rectified the relevant financial returns by treating purchase and sale of the same cash client^(Note) of securities of different description on a gross basis. Sinomax Securities also informed the SFC that the calculation of receivables includes only two trade days, rather than five as allowed by the rules. Therefore, receivables which were not arising from purchase of securities on a cash-against-delivery basis were excluded in the liquid assets by following the aforesaid practice. The amended financial returns were sent to the SFC. Since then, Sinomax Securities has adopted the gross basis for two trade days' period for preparing its financial returns.

Note: Before the SFC's inspection of Sinomax Securities' financial returns in 2010, Sinomax Securities had no margin client. Our then cash clients were not rolling balance cash clients, which means that they did not authorise us to dispose of securities in their securities accounts for settlement of outstanding debts and/or to set-off trade receivables and trade payables.

(2) Order recording

During the SFC's review of Sinomax Securities' dealing records, the SFC noted that all selected sample orders placed via telephone with one of the AEs of Sinomax Securities during trading hours could not be traced to telephone recordings. Sinomax Securities then explained that due to software errors of the centralised telephone recording system, all orders received via the telephone of the said AE could not be retrieved. The SFC was further advised that the telephone records of one of the responsible officers of Sinomax Securities were subject to similar retrieving problems though the said responsible officer seldom received orders himself. This was in breach of paragraph 3.9 of the Code of Conduct.

Sinomax Securities had a complete recording system in place. The relevant responsible officer generally did not receive client orders over the telephone, and orders placed to him were generally from clients who were on-site. As such, the relevant responsible officer expressed clearly that there was no need to connect his phone to the recording system. Hence, Sinomax Securities has since disconnected his line from the recording system and since then there have been no instances of retrieving problems. As for the relevant AE, Sinomax Securities immediately purchased a new telephone with recording machine for him and informed the system vendor to fix the recording system and have since notified the SFC accordingly. Since then, Sinomax Securities' staff have reviewed the system in accordance with the guidelines set by the system vendor on a weekly basis.

(3) Prevention of money laundering

During the SFC's inspection, the SFC was advised that Sinomax Securities had no written policy aimed at preventing and impeding money laundering and terrorist financing. Sinomax Securities subsequently provided a one-page written policy on prevention of money laundering and terrorist financing. However, the policy failed to cover, among others, the following points:

- (a) the controls over receipt of cash/cash cheques, if any;
- (b) the controls over issuance of cash cheques/payment of cash, if any;
- (c) client due diligence policies, such as the documents required for account opening;
- (d) the name of and the monitoring work to be done by the designated compliance officer for prevention of money laundering and terrorist financing;
- (e) the on-going monitoring for identification of suspicious transactions;
- (f) the internal suspicious transactions reporting procedures and a sample of the reporting form; and

- (g) details of training programmes for new employees and refresher trainings to relevant staff members.

Sinomax Securities has since established appropriate policies and procedures for the prevention of money laundering and terrorist financing with reference to paragraphs 4.2 and 9 of the Prevention of Money Laundering and Terrorist Financing Guidance Note (superseded by the Guideline on Anti-Money Laundering and Counter-Financing of Terrorism and the Prevention of Money Laundering and Terrorist Financing Guideline), and have taken steps to ensure the effectiveness and compliance with relevant requirements. In particular, Sinomax Securities has since adopted a systematic approach to identify suspicious or unusual financial activities for reporting to the JFIU.

Sinomax Securities has since adopted and submitted to the SFC a revised written policy on prevention of money laundering and terrorist financing which covers the areas specified by the SFC.

(4) Controls over remote vendor support

The SFC was advised that Sinomax Securities' system vendor was able to access Sinomax Securities' systems (including iTrader, iBroker and the Oracle Database) at anytime via the Internet though it would normally obtain Sinomax Securities' consent before accessing such systems.

To better safeguard the integrity of Sinomax Securities' systems and clients' data, Sinomax Securities was advised to enhance the controls over remote vendor support arrangement by only allowing the vendor access on a request and need-basis. Sinomax has since reversed its remote vendor connection so as to ensure proper access control and data protection.

Sinomax Securities has since rectified the said deficiency by shutting down the relevant server, so that the system vendor has not been able to access Sinomax Securities' systems as the server is power off. In order to access Sinomax Securities' Systems, the said system vendor needs to inform Sinomax Securities in advance, and access is only possible after Sinomax Securities turns on the server.

Findings of the SFC follow-up visit in October 2010

By a letter dated 30 July 2010 from Sinomax Securities to the SFC, Sinomax Securities reported to the SFC that the auditor had stated in the compliance report of Sinomax Securities for the year ended 31 March 2010 that Sinomax Securities did not have sufficient liquid capital during the month of April 2010. In October 2010, the SFC conducted a follow-up inspection on Sinomax Securities. During the inspection, the following breaches and deficiencies in the internal control procedures of Sinomax Securities were identified:

(1) Breaches of Securities and Futures (Client Money) Rules

The SFC was advised in the compliance report of Sinomax Securities that there were discrepancies between the required balances and the actual balances of client money maintained in the segregated bank account of Sinomax Securities during September 2009. Subsequently, Sinomax Securities advised in its letter that the discrepancies were caused by an ex-accounting officer, who resigned from Sinomax Securities in March 2010, failing to pay the required amounts of money received from clients into and out of the segregated bank account within one Business Day after receiving the clients' money or becoming aware the relevant portion was no longer client's money. During the follow-up review, the SFC identified similar discrepancies also occurring in August and October 2009. Accordingly, Sinomax Securities breached sections 4(4) and 10 of the Securities and Futures (Client Money) Rules. Furthermore, Sinomax Securities was informed about the breaches by its auditor in August 2010 but had failed to, within one Business Day thereafter, give written notice of that fact to the SFC and hence has further breached section 11 of the Securities and Futures (Client Money) Rules.

The SFC was informed that a new accounting officer, who had been assigned to conduct the reconciliation of segregated bank account, was employed in April 2010. In addition, the Securities and Futures (Client Money) Rules compliance controls have since been strengthened so that the accounting officer has been required to submit the confirmation of bank account transfer together with the reconciliation of client money to the responsible director for review on a daily basis.

Sinomax Securities has since segregated client money according to the requirements stipulated under the Securities and Futures (Client Money) Rules and made sure that adequate and effective control procedures are put in place to ensure the full compliance of the Securities and Futures (Client Money) Rules, including the notification requirement under section 11 of the Securities and Futures (Client Money) Rules, at all times. Moreover, Sinomax Securities has since ensured that its staff who are responsible for performing the reconciliation and segregation of client money are conversant with the Securities and Futures (Client Money) Rules.

(2) Errors in client aging report produced by the new computer system

During SFC's visit, the SFC noted that Sinomax Securities had implemented a new computer system in April 2010. Sinomax Securities used the new system to produce its management reports for daily operation usage. Moreover, Sinomax Securities had used the client aging report generated by the new system to prepare monthly financial returns since September 2010. However, the SFC found that the client aging report produced by the new computer system failed to classify the client receivables based on the settlement date in accordance with section 21 of the FRR. The SFC also found that the total client receivables shown in the client aging report did not match with the total client receivables shown in the balance sheet. Although the client aging report had been modified to refer to the settlement date, the management of Sinomax Securities had yet to resolve the remaining errors in the client aging report generated by the new system.

General Principle 3 of the Code of Conduct requires that a licensed person should have and employ effectively the resources and procedures which are needed for proper performance of its business activities. Sinomax Securities has since taken action to fix the errors of the client aging report generated by the new system and ensure that the computer system Sinomax Securities enables the proper performance of Sinomax Securities' business activities at all times.

(3) Breaches of the FRR

During the SFC's review of Sinomax Securities' financial returns as at 31 August 2010, the SFC noted that Sinomax Securities had failed to account for its assets and liabilities in its August 2010 financial returns in accordance with the requirements under the FRR. For instance, the SFC noted from Sinomax Securities' financial return for August 2010 that Sinomax Securities had set-off against each purchase and sale by the same cash clients^(Note) of securities of different description due to be settled, which should be treated on a gross basis pursuant to section 11 of the FRR. The error had led to incorrect balances reported under "other amounts receivable from clients arising from dealing in securities" and "amounts payable to clients". The same error was identified in Sinomax Securities' financial returns for August 2006 during the SFC's inspection in 2006. Sinomax Securities failed to deduct cash client^(Note) receivables overdue more than one month after the settlement date from the liquid assets of its financial returns in accordance with section 21 of the FRR. The error had caused an overstatement of the liquid capital of Sinomax Securities as of 31 August 2010.

Sinomax Securities agreed to engage an auditor to review the latest financial returns calculation and provide recommendations for improvement accordingly.

Note: Before the SFC's inspection of Sinomax Securities' financial returns in 2010, Sinomax Securities had no margin client. Our then cash clients were not rolling balance cash clients, which means that they did not authorise us to dispose of securities in their securities accounts for settlement of outstanding debts and/or to set-off trade receivables and trade payables.

Sinomax Securities has since taken all reasonable steps immediately to ensure the accuracy of submitted financial returns and compliance with all requirements of the financial returns at all times. Moreover, Sinomax Securities has since ensured that its staff responsible for preparing the financial returns thoroughly understand and are conversant with the requirements of the FRR.

(4) Inadequate management supervision

The SFC noted that the management of Sinomax Securities relied on the accounting officer to perform daily reconciliation of client money, adjustment of segregated bank account balance and preparation of the financial returns. However, the management of Sinomax Securities failed to identify the errors made by its accounting officer and the breaches of the Securities and Futures (Client Money) Rules, the FRR and the Code of Conduct until they were uncovered. The occurrence of repeated errors without management's notice indicated that there was inadequate management supervision in the daily operation of Sinomax Securities.

According to General Principle 9 and paragraph 4.2 of the Code of Conduct, the senior management of a licensed person should bear primary responsibility for ensuring the maintenance of appropriate standards of conduct and adherence to proper procedures by the firm. The licensed person should also ensure that it has adequate resources to supervise diligently and does supervise diligently persons employed or appointed by it to conduct business on its behalf.

Sinomax Securities has since conducted a thorough review of all critical operation procedures so as to identify and rectify any undetected problems immediately. Sinomax Securities has since ensured adequate management resources are deployed to supervise its staff conducting business on its behalf.

(5) Long outstanding overdue client receivables

During the SFC's sample review of Sinomax Securities' cash clients' ^(Note) monthly statements of September 2010, the SFC noted that some cash clients ^(Note) had long outstanding overdue balances. For example, two clients had about \$3.9 million and \$2.4 million respectively overdue more than one month. The SFC was advised that these two clients had long relationships with Sinomax Securities and were friends of the shareholders. The SFC also noted that the said clients were holding securities portfolio (mainly GEM and non-index stocks) with market values of \$15.5 million and \$14 million respectively as at 30 September 2010. Nevertheless, the existence of long overdue client receivables indicated that Sinomax Securities had not exercised tight credit controls over its clients and had not followed up on the overdue cash client ^(Note) receivables timely.

Note: Before the SFC's inspection of Sinomax Securities' financial returns in 2010, Sinomax Securities had no margin client. Our then cash clients were not rolling balance cash clients, which means that they did not authorise us to dispose of securities in their securities accounts for settlement of outstanding debts and/or to set-off trade receivables and trade payables.

Sinomax Securities' attention was particularly drawn to the SFC's circular dated 25 February 2008 "Implementation of prudent risk management policies and procedures", which indicated that allowing cash clients^(Note) long credit periods to settle their trades were unacceptable risk management practices. Sinomax Securities has since tightened its credit controls and taken actions to follow up with the cash clients^(Note) having long outstanding overdue balances.

The credit controls has since been properly implemented by Sinomax Securities following the SFC's inspection in 2010 as our then existing cash clients^(Note) were required to change their account status to either margin client or cash client. Our cash clients have authorised Sinomax Securities in writing disposal of his/her securities for settlement of outstanding debts and to set-off trade receivables and trade payables. In respect of our cash clients, a credit limit has been granted by our responsible officer or executive Director at their discretion to the relevant client taking into account the following factors: (i) background and financial status, such as employment details; (ii) financial wealth and net assets; and (iii) investment experiences and trading behaviours. Our responsible officer who is responsible for implementing the credit controls will be monitoring the relevant cash client to ensure that he/she is trading is within his/her credit limit.

(6) Delivery of trading documents to clients

During the SFC's visit, the SFC found that:

- (i) eight hold-mail clients had given Sinomax Securities written authority to keep their daily trading document at Sinomax Securities' office while their monthly account statements had been sent to them. However, the SFC also noted that these clients had never collected their daily trading documents. The management of Sinomax Securities had not maintained proper records for hold mail clients' collection of trading document and had not followed up with the clients for the uncollected document;
- (ii) Sinomax Securities had delivered the trading document of one of the hold-mail clients through its AE to the client without proper written authorisation and instruction;
- (iii) the trading documents mailed to the four dormant client accounts with insignificant balances had been returned by post office and their contacts had been changed without notifying Sinomax Securities. However, the SFC noted their securities trading accounts had not been suspended by Sinomax Securities; and

- (iv) Sinomax Securities had accepted the authorisation and instruction from four clients to deliver the trading documents to the AEs of Sinomax Securities for passing onto them.

Sinomax Securities attention was drawn to:

- (i) paragraph 3.10 of Code of Conduct which requires a licensed person to act in the best interests of its clients in providing services to its clients; and
- (ii) section 17 of the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules which states that any contract note, statement of account or receipt required to be provided to a client shall be regarded as duly provided to the client if it is served on any person (except an officer or employee of the intermediary) designated by the client by notice in writing to the intermediary that is required to provide the documents to the client.

In light of the above, Sinomax Securities was required to:

- (i) follow up with its clients to ensure their trading documents kept in Sinomax Securities' office would be collected timely. Sinomax Securities should maintain a log book to keep track of the collection of trading document by its hold mail clients.
- (ii) stop delivering the trading document to the relevant client through any third party without a proper written authorisation from the client;
- (iii) suspend the dormant securities accounts from trading immediately and follow up with Sinomax Securities' clients for their updated addresses and contacts; and
- (iv) Stop delivering the trading document to Sinomax Securities' clients through its AEs and seek other appropriate means to deliver the trading document to them.

The SFC was informed that Sinomax Securities would deliver all uncollected trading documents to the hold mail clients if they have not collected them for more than one week after issuance. Sinomax Securities has since rectified the said deficiencies.

Findings of SFC inspection visit in May 2013

In May 2013, the SFC conducted a routine inspection of Sinomax Securities. During the inspection, the following breaches and deficiencies in the internal control procedures of Sinomax Securities were identified:

(1) Margin call records

The SFC was informed that Sinomax Securities would make margin calls to the relevant clients on the next Business Day after the issuance of the margin client report, which would be reviewed by the management of Sinomax Securities on a daily basis. However, Sinomax Securities did not maintain any audit trails of the margin calls made, as well as the rationale of waiving margin calls as required by Sinomax Securities' internal policy. During the SFC's sampled review, the SFC noted two of the margin clients' accounts had outstanding margin call and were allowed to make further purchases. The SFC was advised that the management had reviewed and approved those further purchases. However, no documentation was maintained in respect of such management decision and the rationale behind thereof. Sinomax Securities was required to institute necessary controls to ensure compliance with the relevant requirements.

The SFC drew Sinomax Securities' attention to the requirements under section 7(2)(d)(iv) of the Securities and Futures (Keeping of Records) Rules and paragraph 12(h) of Schedule 5 to the Code of Conduct, which stipulate a licensed corporation should maintain details of margin calls made and such record should ensure case history of margin calls for each individual client can be readily established. Sinomax Securities has since instituted necessary controls to ensure compliance with the relevant requirements.

Sinomax Securities has since rectified the said deficiencies and instructed its staff to maintain margin call records.

(2) Handling of unrepresented cheques

During the SFC's sampled review of the bank reconciliations of Sinomax Securities' house bank account, the SFC noted that there were some stale unrepresented cheques in the reconciling items (i.e. cheques which had been issued by Sinomax Securities for more than 6 months and remained unrepresented for payment by clients). It appeared that Sinomax Securities had failed to implement proper procedures to ensure that unrepresented cheques were properly followed up and closely monitored.

Paragraph 24 of Appendix C to the Suggested Control Techniques and Procedures for Enhancing a Firm's Ability to Comply with the Securities and Futures (Client Securities) Rules and the Securities and Futures (Client Money) Rules recommends that as soon as the bank statements are received, a firm should reconcile them with its ledger accounts and promptly follow up on all discrepancies and closely monitor those that are material or long overdue. Sinomax Securities has since instituted all necessary measures to follow up promptly with the clients on any long unrepresented cheques especially stale cheques and where appropriate, transfer the amount into a segregated account to ensure that it is adequately safeguarded.

Sinomax Securities has since rectified the said deficiencies. The amount of the unrepresented cheques more than six months had been transferred into segregated accounts. Sinomax Securities' staff monitor the unrepresented cheques daily and properly follow up.

(3) Designation of client securities accounts

The SFC noted that a trading account opened with Sinomax Securities' execution broker for trade execution on behalf of Sinomax Securities' clients was not designated as a trust account or client account.

To enhance client protection, Sinomax Securities has since properly designated such trading accounts to ensure client assets are properly safeguarded as required under paragraph 11.1(a) of the Code of Conduct.

Sinomax Securities has since renamed the trading account opened with its execution broker for trade execution on behalf of its clients as "Sinomax Securities Limited-Client A/C".

(4) Statements of account issued to clients

The SFC noted from its sampled review of Sinomax Securities' statements of account issued to clients that the date of stock withdrawal by a client shown in Sinomax Securities' statement of account was not the actual date when the stock was collected by the client. It was only the date when Sinomax Securities withdrew the stock from its account held with CCASS.

This was not in compliance with section 11(3)(e) of the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules. Sinomax Securities should have since instituted all necessary measures to ensure that all information provided to clients are accurate and not misleading, and are sufficient to comply with the applicable requirements.

Sinomax Securities has since rectified its statements of account issued to clients. Sinomax holds the stocks withdrawn from clients' accounts held with CCASS in clients' accounts held with Sinomax Securities until such stocks are actually collected by our clients.

(5) Receipts issued to clients

The SFC was advised that Sinomax Securities would not provide receipts to clients for physical securities scrip received from the clients. In addition, the daily statements did not expressly state that they also serve as receipts for the client assets received from clients.

This was not in compliance with section 13 of the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules. Sinomax Securities has since prepared and provided receipts to clients to ensure full compliance with the applicable requirements.

Sinomax Securities has since rectified the above and provides receipts to clients upon receiving physical securities scrip. The following statement has been added to the daily statement: “This statement also serves as a receipt required by S13 Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules”.

(6) Anti-Money Laundering and Counter-Terrorist Financing

(a) Documentation of risk assessment

The SFC was advised that Sinomax Securities had performed clients risk assessment based on the money laundering risk factors such as country risk, client risk, product/service risk and delivery/distribution channel risk. However, no records or relevant documents had been kept on the risk assessments conducted.

The SFC drew Sinomax Securities’ attention to paragraph 3.8 of the Guideline on Anti-Money Laundering and Counter-Terrorist Financing which stipulates that Sinomax Securities should keep records and relevant documents on (i) how Sinomax Securities assess the clients’ money laundering and/or terrorist financing risk; and (ii) the extent of client due diligence and on-going monitoring is appropriate based on that clients’ money laundering and/or terrorist financing risk. Sinomax Securities has since instituted all necessary measures to ensure that proper documentation of such risk assessment is maintained.

(b) Identification of Politically Exposed Persons

The SFC was advised that Sinomax Securities only relied on the background information provided by their clients to determine whether the clients or their beneficial owners are politically exposed persons, without making references to any publicly available information or commercially available database.

Section 19(1), Schedule 2 of the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance and paragraph 4.13.9 of the Guideline on Anti-Money Laundering and Counter-Terrorist Financing require Sinomax Securities to establish and maintain effective procedures (for example making reference to publicly available information and/or screening against commercially available databases) for determining whether a client or a beneficial owner of a client is a politically exposed person. Sinomax Securities has since instituted all necessary measures to ensure compliance with these requirements.

(c) Third-party payments

The SFC noted that a “Request for Fund Withdrawal or Fund Transfer to Another Account Form” would be completed by clients for request of third-party payment. However, the reason for third-party payment was not documented.

Given that third-party payments pose high money laundering risk, the compliance officer has since stepped up his monitoring in this area. In particular, Sinomax Securities has since taken into account frequent funds transfers or cheque payments to unverified or difficult to verify third-parties along with other information to identify transactions that could be a cause for scrutiny in accordance with section 5.12 of the Guideline on Anti-Money Laundering and Counter-Terrorist Financing.

Compliance advice letter dated 5 May 2014 from the SFC

On 5 May 2014, the SFC issued a compliance advice letter (the “**Compliance Advice Letter**”) to Sinomax Securities. The purpose of the Compliance Advice Letter was, among others, to set out areas of regulatory concern to assist Sinomax Securities in carrying out its future business activities in compliance with the requirements of the SFO and the Code of Conduct.

The SFC’s concerns

In relation to the SFC’s concerns as to the adequacy of Sinomax Securities’ controls and procedures relating to the use of the AMS terminal and the keeping of order records for orders placed via the AMS and BSS systems, Sinomax Securities’ submitted that:

- (a) it has clear procedures in place to guide users of the AMS terminal on how to maintain and keep records placed via the AMS terminal. Specifically, the procedures were detailed in a rulebook (“**Rulebook**”) and displayed on Sinomax Securities’ notice board. Sinomax Securities also explained the Rulebook to all new employees. A copy of the Rulebook was provided to the SFC to support Sinomax Securities’ submission;
- (b) it has in place a policy where the AMS terminal can only be used by Sinomax Securities’ two responsible officers and a dealing clerk (with the responsible officer’s consent) when the BSS system breaks down. This policy was communicated by Sinomax Securities responsible officer, Mr. Sy, to all staff members;

- (c) its failure to keep order records for a client's transactions in a company's shares on 26 and 28 April 2011 were isolated incidents and were caused solely by the said dealing clerk's failure to follow Sinomax Securities' procedures. The said dealing clerk had since resigned from Sinomax Securities; and
- (d) it has obtained copies of the missing orders records placed via its BSS system in April 2010 to October 2011 from its third party service provider.

Sinomax Securities also submitted it has implemented a number of remedial measures to address the SFC's concerns:

- (a) the AMS terminal at Sinomax Securities is switched off until needed;
- (b) it keeps copies of the Order Activity Detail Report which details all orders placed via its AMS terminal including details of cancelled and amended orders;
- (c) it makes a daily back up of all orders placed via its BSS system and has done so since the discovery by Mr. Sy in October 2011 that the said service provider only retained records for 3 months; and
- (d) it has since retrieved the missing order records for the client's dealings in a company's shares on 26 and 28 April 2011 from the Stock Exchange.

As a licensed corporation, Sinomax Securities has a duty to ensure that it maintains adequate measures to ensure order records are properly kept. The SFC was concerned that Sinomax Securities did not exercise sufficient care and diligence and did not maintain adequate measures to ensure that all order records concerning securities that it receives or initiates were properly kept in compliance with all applicable regulatory requirements. Although Sinomax Securities has since retrieved the missing BSS and AMS records from the Stock Exchange and the relevant service provider, it appears to have made no serious attempts to retrieve the missing records until after the commencement of the SFC's disciplinary proceedings.

General Principle 2 (diligence) of the Code of Conduct requires a licensed person to act with due skill care and diligence in the conduct of its business activities. General Principle 7 (compliance) and paragraph 12.1 of the Code of Conduct require a licensed person to comply with and maintain measures appropriate to ensuring compliance with the law and all regulatory requirements applicable to the conduct of its business activities.

Compliance advice

On balance, the SFC does not consider the formal disciplinary action against Sinomax Securities is necessary or an efficient use of its resources. Instead, the SFC believes that issuing the Compliance Advice Letter is a better alternative and will enable Sinomax Securities to benefit from the opportunity to review and improve its compliance awareness to ensure the SFC's concerns did not arise again. In arriving its decision, the SFC has also taken into account the merits of Sinomax Securities' representations including the procedures in its Rulebook and its production of the missing AMS and BSS records.

Sinomax Securities is reminded that record keeping is a fundamental regulatory obligation and helps to safeguard the interests of both Sinomax Securities and its clients in the event where a dispute arises over the execution of trade orders. Sinomax Securities is further reminded that, although it may outsource the function of keeping records to a third party service provider, the duty to keep proper records and comply with regulatory requirements cannot be delegated and remains with Sinomax Securities. To avoid similar concerns in future, Sinomax Securities is advised to periodically review its procedures to ensure all order records are kept in accordance with the regulatory requirements.

Findings with respect to the letter dated 18 February 2015 from the SFC*Failure of telephone recording system*

The SFC was advised that the telephone recording system of Sinomax Securities ceased to operate during the period from 10 November 2014 to 20 November 2014 because of a hardware problem. The management of Sinomax Securities discovered the problem during the regular checking on 19 November 2014 and immediately requested the vendor to fix the problem. A new telephone recording system was implemented on 20 November 2014 to rectify the problem. Nevertheless, Sinomax Securities had failed to record the clients' telephone orders during the relevant period and hence breached paragraph 3.9 of the Code of Conduct. The SFC was advised that 161 orders from 46 clients had been executed during the relevant period but were not recorded by the telephone recording system. However, all of the executed transactions were duly recorded in the relevant client's daily statements. The management of Sinomax Securities had also called the relevant clients to confirm their transactions respectively. No client complaint has been received by Sinomax Securities in relation to the aforesaid problem. Moreover, regular checking of the telephone recording system has been conducted twice a day so as to ensure the availability of the said telephone recording system.

The SFC takes a serious view on compliance with the Code of Conduct. Sinomax Securities has since put adequate and effective measures in place to ensure the availability of the telephone recording system and full compliance with the Code of Conduct at all times.

Findings of the 2016 assurance report

Based on the 2016 assurance report on compliance with the SFO issued by the auditor of Sinomax Securities, the auditor noted that:

- (1) there were inaccuracies contained in the financial returns of Sinomax Securities as follows:
 - (a) the liquid capital and balance sheet amounts arising from accounts receivable from cash clients of Sinomax Securities as stated in its financial returns were inaccurately calculated, as it had extracted incorrect balances from its system reports;
 - (b) the liquid capital and balance sheet amounts arising from accounts receivable from margin clients of Sinomax Securities as stated in its financial returns were also inaccurately calculated, as it failed to consider the effect of illiquid collateral provided by margin clients; and
 - (c) the liquid capital and balance sheet amounts arising from accounts receivable and payable from HKSCC were also inaccurately calculated as it did not set off accounts receivable against accounts payable in accordance with generally accepted accounting principles, as required under section 3(1) of the FRR.
- (2) Sinomax Securities has failed to send written confirmation to clients regarding the deemed renewal of standing authority.

Under section 4 of the CSR, where a licensed corporation relies on the standing authority of clients when dealing with client securities and/or securities collateral from time to time received, it is required, prior to expiry of existing standing authority, to seek renewal of the standing authority. Such renewal shall be deemed to have been renewed if the licensed corporation gives written notice of such renewal at least 14 days prior to the expiry of the standing authority and the licensed corporation gives written confirmation of such renewal within one week after the date of expiry. While Sinomax Securities had given written notice of such renewal of standing authority to clients prior to its expiry, it had failed to provide written confirmation of such deemed renewal to the relevant clients in breach of section 4 of the CSR.

On 30 August 2016, Sinomax Securities notified the SFC of the above matters, and have (i) subsequently submitted corrected financial returns to the SFC for the affected period from March to June 2016; and (ii) taken various measures to prevent similar mistakes from occurring in the future. These include, inter alia, (a) adopting a policy of providing written confirmations of deemed renewal of standing authority within 7 days of expiry; and (b) updated its back office system such that accounts receivable calculations from margin clients would be generated by its system rather than manually to mitigate incidents of human errors).

Findings with respect to the letter dated 6 July 2017 from Sinomax Securities

Inaccurate financial returns

Sinomax Securities reported to the SFC that the financial returns submitted for the period from April 2015 to March 2017 were inaccurate. A majority of the identified errors in the financial returns were repeated errors due to the usage of improper accounting schedules and system capacity over the relevant period. The major findings are highlighted below:

(1) Amounts receivable from cash clients

Due to the capacity of accounting system (G2BS), amounts receivable from cash clients may not have been reflected accurately. The system has since been upgraded and tested by the vendor, the most updated market data has been extracted from reliable sources and the true amounts of amounts receivable from cash clients has been recorded.

(2) Proprietary positions in securities and specified investments

Inappropriate haircut amount was applied on beneficially owned positions. New haircut percentage has since been used with reference to section 27 of the FRR.

(3) Other payables and liabilities accruals, amounts payable and other liabilities other than approved subordinated loan

Inaccurate classification of accruals was noted in the previously submitted financial returns. Tailor made accruals schedules has since been applied according to section 53(1)(a)-(e)&(h) of the FRR.

(4) Ranking liabilities relating to concentrated proprietary positions

Inappropriate formula was used to calculate concentrated proprietary positions which could not consider all the requirements of section 44 of the FRR in the previously submitted financial returns. The correct formula has since been applied based on section 44 of the FRR.

Sinomax Securities has submitted the revised financial returns for the period from April 2015 to March 2017 to the SFC. In addition to consulting the independent accountant who was appointed to perform reviews on financial returns, Sinomax Securities has since also relied on more experienced staff to maintain more comprehensive and precise accounting schedules and breakdowns and to take note of updates to the FRR.

Findings of the 2017 assurance report***Written notice of renewals of standing authority***

Based on the 2017 assurance report on compliance with the SFO issued by the auditor of Sinomax Securities, the auditor noted that Sinomax Securities gave a written notice to clients to remind them of the impending expiry of standing authority 14 days before the expiry of the standing authority. However, during the year ended 31 March 2017, Sinomax Securities did not give a written notice of renewals of standing authority to those clients who had not replied to Sinomax Securities on or before the date of expiry or gave a written notice of renewals of standing authority after one week of the date of expiry to those clients who had not replied to Sinomax Securities on or before the date of expiry in Deloitte Touche Tohmatsu's selected samples.

Hence, Sinomax Securities was in non-compliance with the requirement under section 4(4) of the Securities and Futures (Client Securities) Rules. This non-compliance matter was rectified on 5 January 2017 by implementing the remediation procedures to renew the client's standing authority in accordance with section 4(4) of the Securities and Futures (Client Securities) Rules.

Sinomax Securities did not comply with the requirements under section 4(4) of the Securities and Futures (Client Securities) Rules and, if without reasonable excuse contravenes the said section, may be liable to a fine at level 3 (HK\$10,000).

Findings of the 2018 assurance report

Based on the 2018 assurance report on compliance with the SFO issued by the auditor of Sinomax Securities, the auditor noted that Sinomax Securities understated its liquid capital on the monthly financial returns during the year ended 31 March 2018 in the amount ranging from HK\$41,000 to HK\$49,000 in its calculation of the provision for concentrated proprietary positions of the listed shares held for its own account as Sinomax Securities used the aggregate net market value of all listed shares held for its own account in the calculation, instead of using the net market value of individual listed shares which are of the same description.

This was not in accordance with section 44 of the FRR. Sinomax Securities has since reported the above instances and resubmitted the revised monthly financial returns to the SFC.

Our Directors confirm that all of the above non-compliance incidents have been rectified. As at the Latest Practicable Date, there was no penalty or sanction imposed by the SFC nor pending action in relation to the non-compliances. For information on our risk management and internal control procedures, please refer to the section headed "Business – Risk management and internal control procedures" in this prospectus.

Findings of SFC inspection visit in May 2019

In May 2019, the SFC conducted a routine inspection of Sinomax Securities. During the inspection, the following breaches and deficiencies in the internal control procedures of Sinomax Securities were identified:

(1) Discretionary accounts and third party operated accounts

Sinomax Securities reported that, as of 30 April 2019, 13 clients had granted authorisations to its licensed representatives to operate their securities trading account on a discretionary basis. In addition, 94 clients had granted authorisations to third parties to operate their trading accounts maintained with Sinomax Securities. The SFC noted the following deficiencies in their sample review:

(a) Operation and monitoring of discretionary account

One of Sinomax Securities' account executive was granted the authority to trade for the accounts of two discretionary clients. During the SFC's review period for the three months ended 30 April 2019, the SFC noted instances where the relevant account executive had placed orders to trade for the two discretionary accounts on the same stock within a short interval. The relevant account executive advised that the investment decisions for trading the same stock for both accounts were generally made at the same time. In executing these investment decisions, the relevant account executive placed separate trade orders and sometimes due to market condition split the trade order for each client into a few orders of smaller quantity at different order prices.

The SFC noted that Sinomax Securities has not established any policy and procedure in ensuring that its staff, when executing the same investment decision made at the same time for more than one client, uses the same execution plan and allocates the same average price to their trades.

GP.1 of the Code of Conduct specifies that a licensed persons should, among others, act fairly of its clients in conducting its business activities. In this connection, Sinomax Securities should establish policy and procedure in ensuring that its staff, when executing the same investment decision made at the same time for more than one discretionary client, uses the same execution plan and allocates the same average prices to their trades.

In addition, Sinomax Securities should put in place appropriate monitoring procedure for supervising the operation of discretionary amounts to ensure that the aforesaid policy and procedure are properly followed by its staff (paragraph 7.1(e) of the Code of Conduct).

The Group has since rectified the said deficiencies.

(b) Compliance with discretionary account agreement

According to the discretionary account agreement (the “**Discretionary Account Agreement**”) signed with clients, staff of Sinomax Securities is required to conduct trades on clients’ accounts in accordance with the investment guideline as set forth in the Discretionary Account Agreement. However, the SFC noted that Sinomax Securities did not implement any monitoring procedures or regular review by an independent staff to ensure the investment guideline in the Discretionary Account Agreement has been adhered to.

Furthermore, under clause 4 of the Discretionary Account Agreement, Sinomax Securities was required to notify the clients in writing and ceased conducting any trades in the accounts in case the net asset value of the discretionary accounts dropped to an agreed net asset value level specified by clients in the Discretionary Account Agreement (the “**Notification Requirement**”). In practice, the SFC was advised that no checking procedure was done to ensure the Notification Requirement was complied with from time to time.

This is not in compliance with paragraph 2(b) and 2(c) in Appendix to the Internal Control Guidelines. Sinomax Securities should put in place monitoring procedures to ensure the trades executed on the discretionary accounts are in accordance with the terms, and such review should be conducted by designated staff member(s) independent of the staff handling the accounts. In addition, Sinomax Securities should put in place procedures to ensure any reporting/Notification Requirement as set forth in the Discretionary Account Agreement entered with clients is complied with.

The Group has since rectified the said deficiencies.

(c) *Controls over third party operated accounts*

The SFC noted that the relationship between the third party operators and the clients in a number of cases were “friends” and such relationship did not seem to provide self-evident reason why the clients have granted the trading authority to these third parties.

Furthermore, the SFC noted that a former responsible officer of Sinomax Securities was allowed to operate 8 client accounts. The authorisations were given by the clients when the relevant responsible officer was still accredited as a licensed representative of Sinomax Securities. These accounts were then reclassified as third party operated accounts in Sinomax Securities' internal record, but Sinomax Securities had not taken any action to follow up with the clients to ascertain whether they would continue the authorisation of the relevant responsible officer after his departure. The SFC noted that 6 of these clients account did not have any trading activities for the 12 months ended 30 April 2019 (the “**Inactive Clients**”). Separately, the SFC also noted that 55 clients out of 94 third party operated accounts were also Inactive Clients.

It is important to note that third party operated accounts may expose their account holders and the licensed corporation to undue risks. Sinomax Securities should implement and maintain appropriate policy and procedure to:

- (i) critically evaluate the relationship and reasons and need for the authorisation before the approval of third party operated accounts; and
- (ii) conduct regular review to determine whether the third party authorisation remain necessary and appropriate.

(2) *Securities Margin Financing*

Lax margin call triggers and documentation standard

The triggering level for making first and successive margin call was not clearly set out in Sinomax Securities' margin lending policies. The policy only sets out a list of factors, including the client's existing loan balance, the quality and value of existing collateral, the client past credit history etc. to be considered in deciding whether it is necessary to issue margin calls.

The SFC noted that a responsible officer of Sinomax Securities would review a “Margin Call Report” which listed out all client account with margin shortfall (such client accounts are referred to “**Under-margin Clients**” hereafter) on a daily basis. Margin shortfall refers to the amount by which the outstanding loan balance exceeds the marginable value of underlying collateral, which is the market value of individual stock in the underlying collateral x their applicable margin ratio. However, in practice, the SFC noted that margin calls would not be issued to all Under-margin Clients. The relevant responsible officer would consider the “actual ratio” i.e. the ratio of outstanding loan balances to market value of underlying collateral as the key parameter for margin call triggers. The SFC was advised by the relevant responsible officer that clients account with “actual ratio” of over 80% would be subject to margin calls.

From the SFC's review of the Margin Call Report on 2 April 2019, the SFC noted that there were 46 Under-margin Client accounts and 8 of them were noted with "actual ratio" of over 80%. However, no margin calls were issued to the 8 clients with "actual ratio" of over 80%. The relevant responsible officer explained that he had exercised his judgement to waive the margin calls on the 8 clients. However, the SFC noted that the decision for the aforesaid waiver of margin call to the 8 clients was made by the relevant responsible officer alone, and no check and balance has been put in place e.g. sample review by compliance team or by another responsible officer against any objective criteria on whether such waiver is appropriate. Furthermore, no documentation was maintained on the approval of the waiver and the justification for waiver of the margin calls to these 8 clients with "actual ratio" over 80%. Such practice was not in compliance with Sinomax Securities margin lending policy, which stipulated that any waiver of margin calls must be approved by a responsible officer with proper documentation of the justification.

For compliance with paragraph 12(h) of Schedule 5 to the Code of Conduct, Sinomax Securities should set the triggering level for making the first and successive margin calls, including intra-day calls in its margin lending policy.

When determining the triggering level for making margin calls, Sinomax Securities should refrain from adopting a fixed loan-to-collateral ratio and should take into consideration all relevant factors, including the quality, volatility and liquidity of the securities collateral provided by the client, prevailing market conditions and the client's credit worthiness.

Any deviation from the firm's margin call policy and procedure, including the waiver of margin calls when the trigger level is reached, should be approved by senior management in writing and supported by documented justification, and a suitable check and balance mechanism should be put in place to ensure that any such deviation is approved only when prudent approval criteria are met.

The Group has since rectified the said deficiencies.

(3) Controls over CCASS operations

The SFC noted that a senior management of Sinomax Securities would act as the backup of a responsible officer by using his CCASS access card and password to approve transactions in the CCASS terminal during his leave of absence.

The operation of CCASS functions for the transactions is a high risk area. Effective controls and safeguards such as ensuring stringent access controls are essential to protect client assets.

Sinomax Securities should also implement controls to disallow sharing of CCASS user accounts, access cards and passwords as this would undermine the effectiveness of any controls implemented and make unauthorised transaction difficult to detect.

The Group has since rectified the said deficiencies.

(4) Anti-money laundering and counter-financing of terrorism measures

(a) Suspicious transaction monitoring and reporting

Sinomax Securities' Money Laundering Reporting Officer would perform review of clients' trades for identification of unusual and potentially suspicious transactions based on a list of red flag indicators set out in Sinomax Securities' policies. The SFC noted that transactions that are not consistent with the firm's knowledge of the client, the client's business, risk profile or source of funds were not included in the list of red flag indicators set out in Sinomax Securities' policies.

In the SFC's sample review, the SFC noted that a client of Sinomax Securities had deposited physical scrip of shares with value of over HK\$100 million to Sinomax Securities in September 2018. The transaction amount did not appear to be consistent with Sinomax Securities' knowledge of the relevant client's financial profile and her source of funds as the amount was significantly higher than her reported total net assets of below HK\$4 million, and could not be reasonably explained by her reported source of income i.e. annual salary of less than HK\$600,000 provided by her for the account opening 9 months ago in January 2018. No follow up enquiries was made by Sinomax Securities about the source of funds for purchasing the shares deposited by the relevant client.

Under section 5(1) of Schedule 2 to Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (Chapter 615 of the Laws of Hong Kong) and paragraph 5.1 of the Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Corporations), a financial institution must continuously monitor its business relationship with a customer by, among other things, conducting appropriate scrutiny of transactions carried out for the customer to ensure that they are consistent with the firm's knowledge of the customer, the customer's business, risk profile and source of funds.

Sinomax Securities should critically review and enhance its systems and procedures to identify transactions that are not commensurate with the firm's knowledge of the client and the client's financial profile for follow up enquiries. Sinomax Securities should also establish and maintain a record of its further enquiries and investigations as well as assessment of these potentially suspicious transactions, and whether they result in a disclosure to the Joint Financial Intelligence Unit (the "JFIU").

Upon their enquiry during the inspection, the SFC noted that Sinomax Securities had subsequently performed a review on the relevant client's account and considered that there were grounds for suspicion. Sinomax Securities consequently filed a suspicious transaction report on the relevant client's account to the JFIU. Notwithstanding the above, Sinomax Securities is required to implement proper controls to comply with the aforesaid requirements.

Sinomax Securities has since rectified the said deficiency and has strengthen its policy and procedures with regards to the monitoring and reporting of suspicious transactions.

(b) Sanction screening

The SFC noted that Sinomax Securities would perform sanction screening on clients against a commercially available database only at the establishment of business relationship and in its periodic review of customer information, but not whenever there are any relevant new and updated designations.

This was not in compliance with paragraph 6.16 of the Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Corporations). Sinomax Securities is required to establish and maintain effective procedures for sanction screening.

The Group has since rectified the said deficiencies.

Given that the non-compliance incidents have been fully rectified, and no further action has been taken by the SFC regarding the non-compliance incidents, our Directors believe that the risk of any further action to be taken by the SFC relating to the abovementioned non-compliance incidents is remote.

Our Directors confirm that the non-compliances disclosed in the Prospectus were not systemic non-compliances pursuant to the Guidance Letter HKEX-GL63-13 given that they were not of a recurring nature. The said non-compliances and/or deficiencies in the internal control procedures involved different aspects of the operations of Sinomax Securities.

Our Directors consider that the abovementioned non-compliance incidents would not affect the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules or the suitability of listing our Company under Rule 8.04 of the Listing Rules and that the various internal control measures adopted by our Group are adequate and effective having taken into account that:

- (a) the non-compliance incidents did not involve any dishonesty or fraudulent act on the part of our Directors, and did not raise any question as to the integrity of our Directors;
- (b) we have implemented and will continue to implement internal control measures to avoid the recurrence of the non-compliance incidents;
- (c) we have carried out remedial actions and fully rectified the non-compliance incidents; and
- (d) as far as our Directors are aware, there has been no recurring of similar non-compliance incidents since the implementation of the relevant remedial measures.

Internal control measures to mitigate risks of further non-compliance incidents and to enhance our internal controls

Our Group engaged an independent consulting firm (the “**Internal Control Consultant**”) in May 2019 to perform an assessment of internal controls by identifying internal control weaknesses in relevant financial procedures, systems and internal controls, including amongst others, corporate controls, financial reporting and disclosure controls, insurance management and general IT controls, key processes relevant to previous non-compliance and where appropriate, providing recommendations for improvement.

Based on the Internal Control Consultant’s review and recommendations, our Group implemented enhanced measures and adopted/updated policies, procedures and manuals to improve our internal control systems, mitigate risks of future non-compliances and deficiencies incidents as well as to ensure our compliance with the Listing Rules and relevant Hong Kong laws. All the relevant deficiencies that were noted following Internal Control Consultant’s review have since been rectified in full or have been remedied to the extent the risk exposure to the Group is not material.

Further, in order to continuously improve our Group’s corporate governance and to mitigate risks of non-compliance or incidents of deficiencies in the future, our Group has adopted the following measures:

- (i) all previous practices of Sinomax Securities which were questionable under applicable laws and regulations have ceased and/or been rectified;
- (ii) following the internal control review by the Internal Control Consultant, certain of our internal control procedural manuals and policies have been updated;

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- (iii) our senior management and staff have been provided with our updated manuals and policies as well as adequate training, and going forward, we will continue to provide them with adequate training and/or updates regarding applicable legal and regulatory requirements from time to time;
- (iv) we have designated a compliance manager to assist our senior management and our Board identify, assess and manage the risks associated with compliance of laws and regulations applicable to our Group;
- (v) we will retain qualified legal counsel where necessary to advise our Group from time to time on legal and regulatory compliance matters;
- (vi) we have established an audit committee comprising all of our independent non-executive Directors, whose primary duties are to assist our Board in providing an independent view on the effectiveness of our Group's financial reporting process, internal control and risk management systems, to oversee the audit process, and to perform other duties and responsibilities as assigned by our Board; and
- (vii) we have implemented risk management policies and procedures, and also established a risk management committee to identify, evaluate and manage risks arising from our operations.

Having considered the rectification action taken and the enhanced internal control measures adopted by us based on recommendations and discussion with our Internal Control Consultant (who confirmed that such actions and measures have been implemented), our Directors are of the view that the risk management restructures and policies and internal control measures adopted by our Group are adequate and effective and will enable our Group to ensure ongoing compliance with applicable legal and regulatory requirements.

OUR STAFF

Our Staff

As at the Latest Practicable Date, we had a total of 16 employees who were all stationed in Hong Kong. The following table sets forth a breakdown of the number of our employees by business functions:

	For the year ended 31 March			For the four months ended 31 July 2019
	2017	2018	2019	
Human resources and administration	5	3	4	4
Dealing and operation				
– responsible officers	4	4	3	3
– licensed representatives	4	5	4	3
Settlement	2	2	2	2
Accounting	1	2	2	2
Risk management	1	1	1	1
Compliance	–	1	1	1
	<u>17</u>	<u>18</u>	<u>17</u>	<u>16</u>

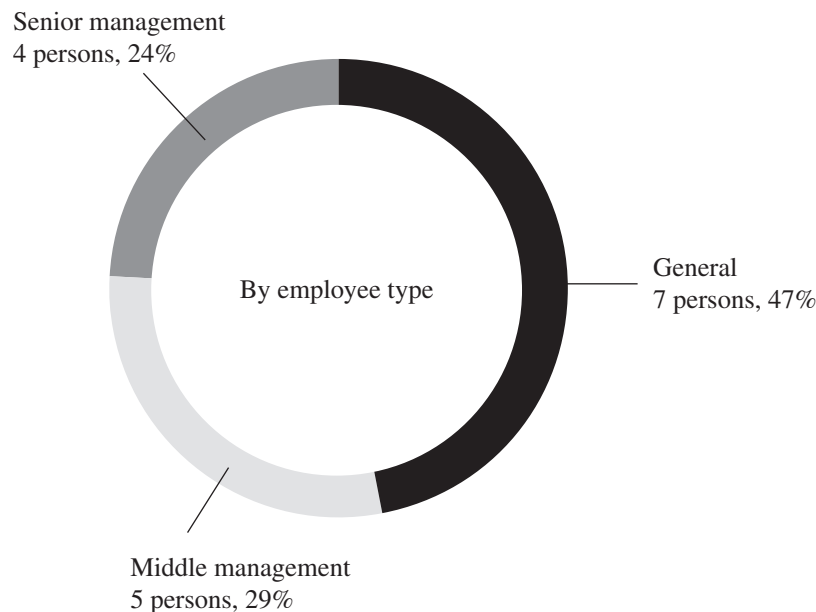
BUSINESS

All of our employees (other than our AEs) 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 our AEs) include fixed monthly salary, commission and bonus. Apart from a fixed salary, our staff dealers are entitled to share a proportion of the brokerage commission for the trading on the Referred Accounts referred by them. However, they are not entitled to receive any brokerage commission for trading in the House Accounts.

Generally, the salaries of our employees are determined based on the employee's qualification, experience, position and seniority. We assess our employee's remuneration on an annual basis to determine whether any bonuses or salary adjustments are required to be made. We have not experienced any strikes, labour disputes or other labour disturbances which have materially and adversely interfered with our business operations.

Contributions are made to the mandatory provident fund for each of our employees in accordance with the Mandatory Provident Fund Scheme Ordinance (Cap. 485 of the Laws of Hong Kong), and each of them are entitled to all social benefits and entitlements afforded to them under the Employment Ordinance (Cap. 57 of the Laws of Hong Kong). We do not maintain any occupational retirement schemes pursuant to the Occupational Retirement Schemes Ordinance (Cap. 426 of the Laws of Hong Kong).

As at 31 July 2019, the employee compositions (in numbers of employees) by employment type were as follows:



AEs

As at the Latest Practicable Date, we had a total of 6 AEs, and as at 31 March 2017, 2018 and 2019 and 31 July 2019, we had 8, 6, 7 and 8 AEs, respectively. Our AEs are not full-time employees of Sinomax Securities and do not have continuous contracts of employment with us, and as such they are not required to work in our offices at designated times and are not entitled to statutory benefits and entitlements as an employee under the Employment Ordinance (Cap. 57 of the Laws of Hong Kong). Instead, they are engaged on a commission basis and are only entitled to commission at an agreed sharing ratio from the commission generated from the clients they referred to our Group.

The major terms of agreements entered between our AEs and Sinomax Securities are summarised below:

- it is expressly declared that the agreement and the relationships between Sinomax Securities and our AEs do not constitute a contract of employment;
- both parties agree that all commissions received from clients referred by our AEs will be shared between us and our AEs at an agreed percentage;
- our AEs will be fully and personally responsible for the collection of all amounts due from his/her clients and in any case be wholly and fully responsible for all amounts due by his/her clients, if any;
- our AEs shall indemnify Sinomax Securities and keep it indemnified against all loss and/or damage which may be suffered by Sinomax Securities in connection with or arising from the business transactions dealt by or through him/her;
- our AEs must comply with the SFO, and all codes and guidelines laid down by the SFC and HKEX; and
- either party may terminate the agreement by providing one month written notice to the other party. There are exclusivity clauses and non-competition undertakings restricting various activities of AEs following the termination of their engagement.

Our Directors consider that by engaging AEs, we can easily gain access to more potential clients without bearing extra fixed staff costs. For the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, commission and brokerage income generated from the Referred Accounts was approximately HK\$1.24 million, HK\$1.41 million, HK\$0.64 million and HK\$0.4 million, respectively, accounting for approximately 7.5%, 4.5%, 3.0% and 5.7% of our total commission and brokerage income, respectively.

Notwithstanding that our AEs are not our employees, they are licensed representatives of Sinomax Securities and their business activities are bound by the Code of Conduct. According to the Code of Conduct and our internal control policy, licensed employees and our AEs are generally required to deal in securities through their securities trading accounts maintained with us. All our internal control policies including the staff dealing monitoring procedures are extended to our AEs and we have not experienced any difficulties in monitoring our AEs during the Track Record Period and up to the Latest Practicable Date. Please refer to the paragraph headed “Staff dealings” in this section for further details of our risk management measures in relation to our staff dealing.

Training policies

Subject to the continuous professional training requirements, our responsible officers and licensed representatives are required to take sufficient number of hours of continuous professional training in order to fulfil such training requirements, maintain their SFC licences to carry on the relevant regulated activities and keep updated on the changes and development in the financial and securities industry and the relevant laws and regulations. Such training sessions include but not limited to the topics of the Listing Rules, financial reporting, internal control, accounting practices and standards and other compliance issues.

Our compliance department will follow up and remind all of our responsible officers, licensed representatives and AEs to attend sufficient continuous professional training hours and maintain proper record of such continuous professional training before we submit our annual return to the SFC.

Recruitment policies

We generally recruit employees through placing advertisements through open market. We assess the available human resources on a continuous basis and will determine whether additional personnel are required to cope with the business development of our Group. During the Track Record Period, we have not discovered any non-compliance relating to our recruitment practice. In case of discovery of non-compliance incidents, our Group will cooperate with the relevant authorities and take remedial actions.

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 human resources and administration 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

LITIGATION

As at the Latest Practicable Date, neither our Company nor any of our subsidiaries was engaged in any litigation or arbitration of material importance, and no litigation or claim of material importance was known to our Directors to be pending or threatened against our Company or any of our subsidiaries which would have a material adverse effect on our business, results of operations or financial conditions.

OUR INTELLECTUAL PROPERTY


Domain name

As at the Latest Practicable Date, our Group was the registered owner of two domain names, namely:

Domain name	Registered owner	Registration date	Expiry date
hkfsfinance.com	Our Company	13 June 2016	17 May 2022
sinomaxsec.com.hk	Sinomax Securities	16 January 2002	19 January 2024

Trade mark


As at the Latest Practicable Date, our Group had registered the following trademark with the Trade Mark Registry of Hong Kong in relation to our business:

Trademark	Registered owner	Class	Place of registration	Registration number	Registration date	Expiry date
	our Company	36 (Note)	Hong Kong	303827728	5 July 2016	4 July 2026

Note:

Class 36: Financial services; monetary affairs; brokerage services; stocks and bonds brokerage; securities brokerage; stock exchange quotations.

As at the Latest Practicable Date, we applied for the registration of the following trade mark with the Trade Mark Registry of Hong Kong, the registration of which is still in process:

Trademark	Applicant	Class	Place of application	Application no.	Application date
 Sinomax Securities Ltd. 佳富達證券	Sinomax Securities	36 (Note)	Hong Kong	305026121	14 August 2019

Note:

Class 36: Financial services; monetary affairs; brokerage services; stocks and bonds brokerage; securities brokerage; stock exchange quotations.

BUSINESS

During the Track Record Period and up to the Latest Practicable Date, we have not infringed, and have not been alleged to have infringed, any intellectual property owned by third parties and we have not been subject to any intellectual property infringement claim against as or been involved in any material intellectual property dispute. Details of our intellectual property rights are set out in the paragraph headed “Intellectual property rights owned by our Group” in Appendix IV of this prospectus.

Except for the abovementioned trademarks and domain name, our Group does not own any other intellectual property rights.

OUR LEASED PROPERTY

As at the Latest Practicable Date, we did not own any real properties.

Our headquarters and principal place of business is leased from an Independent Third Party pursuant to a tenancy agreement whereby our Group is permitted to have exclusive possession to occupy and use the office premises. Details of the premises are summarised below:

Location	Tenant	Description and tenure	Usage	Term
Units 5 and 6 on the 27 th Floor of Tower One of Lippo Centre, 89 Queensway, Hong Kong	Sinomax Securities	The property comprises two adjoining office units with a total lettable area of approximately 2,818 square feet. This property is leased to Sinomax Securities pursuant to a tenancy agreement.	Office	three years from 6 February 2017 to 5 February 2020

During the Track Record Period, our total rental and related expenses incurred were approximately HK\$6.7 million.

OUR INSURANCE COVERAGE

During the Track Record Period, we have maintained (i) insurance covering fidelity and crime risks (e.g. loss of client assets due to theft by employees or other fraudulent acts) as required under the Securities and Futures (Insurance) Rules (Chapter 571AI of the Laws of Hong Kong); (ii) employees’ compensation insurance in accordance with the Employees’ Compensation Ordinance (Chapter 282 of the Laws of Hong Kong); (iii) public liability to cover against accidental bodily injury to third party and damage to property belonging to third party; (iv) business interruption insurance; and (v) money insurance to cover risk of loss of money.

Our Directors are of the view that our insurance coverage is adequate for our business operations and consistent with industry norm in Hong Kong. For the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2019, the total insurance expenses amounted to approximately HK\$9,000, HK\$11,000, HK\$14,000 and HK\$2,000, respectively. As at the Latest Practicable Date, our Group had not made, or been the subject of, any material insurance claim.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Name	Age	Present position	Date of appointment	Date of joining our Group	Roles and responsibilities	Relationship with other Director(s) and/or senior management
Mr. Sy Man Chiu (許文超)	64	Executive Director and chief executive officer	7 June 2016	16 November 2007	Responsible for overseeing the overall business development, operations and management of our Group, implementing decisions and plans approved by our Board and making day-to-day operational and managerial decisions	Nil
Mr. Ng Sik Chiu (吳錫釗)	34	Executive Director and head of risk management	16 January 2019	8 November 2012	Responsible for overseeing the risk management and margin policy of our Group	Nil
Mr. Keng Stephen Lee (李青松)(formerly known as Li Ching Chung)	56	Non-executive Director and Chairman	7 June 2016	11 July 2001	Responsible for major decision-making and providing strategic advice on our Group's business development	Nil
Dr. Yu Sun Say (楊孫西)	81	Independent non-executive Director	22 January 2020	22 January 2020	Responsible for providing independent advice and judgement on the strategy, performance, resources and standard of conduct of our Company	Nil
Mr. Lai Man Sing (黎文星)	51	Independent non-executive Director	22 January 2020	22 January 2020	Responsible for providing independent advice and judgement on the strategy, performance, resources and standard of conduct of our Company	Nil
Dr. Ho Chung Tai Raymond (何鍾泰)	80	Independent non-executive Director	22 January 2020	22 January 2020	Responsible for providing independent advice and judgement on the strategy, performance, resources and standard of conduct of our Company	Nil

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Our Board currently consists of six Directors comprising two executive Directors, one non-executive Director and three independent non-executive Directors. Our Board is responsible for the overall management and conduct of our Group's business.

Executive Directors

Mr. Sy Man Chiu (許文超), aged 64, was appointed as our Director on 7 June 2016 and re-designated as our executive Director on 22 January 2020. He is primarily responsible for overseeing the overall business development, operations and management of our Group, implementing decisions and plans approved by our Board and making day-to-day operational and managerial decisions. Mr. Sy joined our Group in November 2007 as a deputy general manager, and was appointed as a director of Sinomax Securities in February 2008. Mr. Sy has been a responsible officer of Sinomax Securities for type 1 (dealing in securities) regulated activity since February 2008 and for type 4 (advising on securities) and type 9 (asset management) regulated activities since August 2016.

Prior to joining our Group, Mr. Sy worked at Piper Jaffray Asia Securities Limited as an account executive and a licensed representative for type 1 (dealing in securities) regulated activity from June 2005 to November 2007. Before joining the securities trading industry, Mr. Sy held management positions in a number of garment trading companies.

He obtained his Diploma in Computer Programming and Systems Analysis from the Institute for Computer Studies in Toronto, Canada in June 1991.

Mr. Sy was a director of the following companies which were solvent and incorporated in Hong Kong prior to their dissolutions and were deregistered other than by members' voluntary winding up. The details of such companies are as follows:

Name of company	Principal business	Date of dissolution	Means of dissolution	Reason for dissolution
Horizon Sino-Euro Economic Trade Development Limited (浩業中歐經濟貿易發展有限公司)	The company has never commenced business	6 August 2004	Deregistration (Note)	The company has never commenced business
Horizon Textiles (Hong Kong) Limited (浩業(香港)紡織品有限公司)	The company has never commenced business	6 August 2004	Deregistration (Note)	The company has never commenced business

Note: Dissolved by deregistration pursuant to section 291AA of the Predecessor Companies Ordinance.

Mr. Sy confirmed that, (i) the dissolution of each of the above companies did not result from any wrongful act, misconduct or misfeasance on his part; and (ii) as at the Latest Practicable Date, he was not aware of any actual or potential claim which has been or will be made against him as a result of the dissolution of each of the above companies.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Ng Sik Chiu (吳錫釗), aged 34, was appointed as our Director on 16 January 2019 and re-designated as our executive Director on 22 January 2020. Mr. Ng joined our Group in November 2012 as a dealer's representative of Sinomax Securities, and was appointed as the head of risk management of Sinomax Securities in March 2016. He was further appointed as an associate director of Sinomax Securities in July 2016. He is primarily responsible for overseeing the risk management and margin policy of Sinomax Securities. He has been a responsible officer of Sinomax Securities for type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities since August 2016.

Prior to joining our Group, Mr. Ng worked in Quam Securities Company Limited (now known as China Tonghai Securities Limited) as a licensed representative for type 1 (dealing in securities) regulated activity from August 2011 to June 2012 and for type 2 (dealing in futures contracts) regulated activity from September 2011 to June 2012.

Mr. Ng graduated from the University of Manchester in the United Kingdom with a Bachelor of Arts in Economics and Social Studies in June 2009. He obtained his Master of Science in Financial Computing from the University College London in the United Kingdom in November 2010. Mr. Ng is the son of Ms. Yeung, one of our Controlling Shareholders.

Mr. Ng was a director of the following companies which were solvent and incorporated in Hong Kong prior to their dissolutions and were deregistered other than by members' voluntary winding up. The details of such companies are as follows:

Name of company	Principal business	Date of dissolution	Means of dissolution	Reason for dissolution
Ortus Global (HK) Limited (遠誠環球(香港)有限公司)	Agriculture trading	23 November 2018	Deregistration (Note)	Cessation of business
Top Solution Group Limited (天迅集團有限公司)	Agriculture trading	12 August 2016	Deregistration (Note)	Cessation of business

Note: Dissolved by deregistration pursuant to section 751 of the Companies Ordinance.

Mr. Ng confirmed that, (i) the dissolution of each of the above companies did not result from any wrongful act, misconduct or misfeasance on his part; and (ii) as at the Latest Practicable Date, he was not aware of any actual or potential claim which has been or will be made against him as a result of the dissolution of each of the above companies.

DIRECTORS AND SENIOR MANAGEMENT

Non-executive Director

Mr. Keng Stephen Lee (李青松) (formerly known as Li Ching Chung), aged 56, is the chairman of our Board and he was appointed as our Director on 7 June 2016 and re-designated as our non-executive Director on 22 January 2020. He is primarily responsible for major decision-making relating to the business strategy and overall direction of our Group and providing strategic advice on our Group's business development. As a controlling shareholder of Sinomax Securities, Mr. Keng was pertinent to all major decision making processes which were material to the strategic development of Sinomax Securities, including decisions regarding the launch of margin financing business as well as decisions relating to the commencement of provision of investment advisory and asset management regulated activities. Mr. Keng also contributed working capital to the business over the years through equity subscriptions and provision of shareholders' loans to support business expansions of Sinomax Securities. Upon Listing, Mr. Keng's involvement in the business operations of our Group will remain unchanged. Mr. Keng co-founded our Group in July 2001. He is also a director of Smart Domain and Sinomax Securities.

Mr. Keng has over 20 years of experience in general business administration and management. Mr. Keng started engaging in the shipping business in 1995. He has been a shareholder of several shipping companies in Hong Kong which offer shipping and freight forwarding services between Hong Kong and other countries in Asia. Since 2004, Mr. Keng has been involved in the property development business. He is the co-founder and is currently the chairman of the board of Anchor Land Holdings, Inc. ("**Anchor Land**"). Anchor Land was incorporated in July 2004 in the Philippines and principally engages in real estate development and marketing, focusing initially in high-end residential condominiums within the Manila area, the Philippines. Anchor Land has been listed on the Philippine Stock Exchange, Inc. with the symbol "**ALHI**" since August 2007. Mr. Keng is currently the chairman of the board and the legal representative of Fei Hua Zhi Ye (Chongqing) Company Limited (菲華置業(重慶)有限公司) ("**Fei Hua**") which is principally engaged in real estate development in Chongqing city, the PRC.

Due to his business commitments in Anchor Land and Fei Hua, Mr. Keng considered that he may not be able to allocate sufficient time for managing the daily operations of our Group and therefore he decided to undertake a non-executive director role with our Company instead of an executive director role.

Mr. Keng was a director of the following company which was solvent and incorporated in Hong Kong prior to its dissolution and was deregistered other than by members' voluntary winding up. The details of such company are as follows:

Name of company	Principal business	Date of dissolution	Means of dissolution	Reason for dissolution
Top Smart Investment Group Limited (卓越投資集團有限公司)	Property holding	7 December 2012	Deregistration (Note)	Cessation of business

Note: Dissolved by deregistration pursuant to section 291AA of the Predecessor Companies Ordinance.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Keng confirmed that, (i) the dissolution of each of the above companies did not result from any wrongful act, misconduct or misfeasance on his part; and (ii) as at the Latest Practicable Date, he was not aware of any actual or potential claim which has been or will be made against him as a result of the dissolution of the above company.

Independent non-executive Directors

Dr. Yu Sun Say (楊孫西), *GBM, GBS, SBS, JP*, aged 81, was appointed as our independent non-executive Director on 22 January 2020. He is primarily responsible for providing independent advice and judgment on the issues of strategy, performance, resources and standard of conduct of our Company.

Dr. Yu is the chairman and the director of a number of companies engaged in various businesses including garment manufacturing, fashion design and property investment. He has been an independent non-executive director of Wong's International Holdings Limited (王氏國際集團有限公司)(stock code: 0099), a company listed on the Main Board of the Stock Exchange, since October 1999, Tongda Group Holdings Ltd (通達集團控股有限公司)(stock code: 0698), a company listed on the Main Board of the Stock Exchange, since October 2007, and Beijing Enterprises Holdings Limited (stock code: 0392), a company listed on the Main Board of the Stock Exchange, since March 2014.

In 1995, Dr. Yu was appointed as a member of the Preparatory Committee of the HKSAR. From 1994 to 1997, Dr. Yu was appointed as Hong Kong Affairs Adviser by the Hong Kong and Macau Affairs Office of the State Council and Xinhua News Agency, Hong Kong Branch. From 2002 to 2004, Dr. Yu was re-appointed as a member of the Town Planning Board of Hong Kong and its Metro Planning Committee. On 1 July 1998, Dr. Yu was appointed as a Justice of the Peace, and was awarded the Silver Bauhinia Star in July 1999, the Gold Bauhinia Star in July 2007, and the Grand Bauhinia Medal in July 2014.

Dr. Yu was a president of the Chinese Manufacturers' Association of Hong Kong and a Standing Committee member of the National Committee of the Chinese People's Political Consultative Conference in 2012. In 2004, the Government of the HKSAR appointed Dr. Yu as a member of the Greater Pearl River Delta Business Council. Dr. Yu was a member of the Presidium of the Conference for Electing Deputies of the HKSAR to the 12th National People's Congress in November 2012. Dr. Yu was a honorary president of the Hong Kong Federation of Fujian Associations from 2007 to 2008.

Apart from being active in the business community, Dr. Yu is also a director of the Education Foundation of Tsinghua University and an advisory professor of the School of Social Engineering and Management of Nanjing University in the PRC. In addition, Dr. Yu was a director of Fudan University from May 2003 to May 2007 and was conferred the title of director of the 6th session of the board of trustees of Huaqiao University in the PRC in June 2010 and the title of permanent honorary director of the 7th session of the board of trustees of the same university in November 2014. Dr. Yu was awarded a Doctor Degree in Economics from the Northern Territory University ("NTU") in Australia in January 1999. He has also been a life member of the NTU Foundation since January 1999. In 2003, NTU merged with several other educational institutions to form Charles Darwin University.

DIRECTORS AND SENIOR MANAGEMENT

Dr. Yu was a director of the following companies which were solvent prior to their dissolutions. The details of such companies are as follows:

Name of company	Principal business	Date of dissolution	Means of dissolution	Reason for dissolution	Place of incorporation
Association for Celebration of Reunification of Hong Kong with China Limited (香港各界慶祝回歸委員會有限公司)	Planning events and activities for celebration of reunification of Hong Kong with China	21 January 2003	Members' voluntary winding up	Cessation of business	Hong Kong
Aupoint International (China) Limited (友邦國際(中國)有限公司)	Not applicable (Note 1)	12 July 2002	Striking off (Note 3)	The company has never commenced business	Hong Kong
China Joint International Limited (中晉國際有限公司)	Not applicable (Note 1)	16 February 2007	Deregistration (Note 2)	The company has never commenced business	Hong Kong
Commence Way Development Limited (啟途發展有限公司)	Garment trading	12 March 2010	Deregistration (Note 2)	Cessation of business	Hong Kong
Continuous Technologies International Holdings Limited ("Continuous Technologies")	Investment holding	30 April 2003 (Note 4)	Deregistration (Note 2)	Cessation of business	Cayman Islands (Note 5)
Darwin International Property Development Limited (達爾文國際發展有限公司)	Property development	12 November 2010	Deregistration (Note 2)	Cessation of business	Hong Kong
Donna Fiori Mfg. Limited	Garment manufacturing and trading	17 October 2014	Deregistration (Note 7)	Cessation of business	Hong Kong
Metrofive Industrial Limited (五華企業有限公司) ("Metrofive")	Garment	16 August 2004	Compulsory winding up (Note 6)	Failing to repay creditor (Note 6)	Hong Kong
Jantex International Limited (晉達國際有限公司)	Investment in Securities	20 August 2010	Deregistration (Note 2)	Cessation of business	Hong Kong
Wallaby Limited (惠碧有限公司)	Investment holding	30 July 2010	Deregistration (Note 2)	Cessation of business	Hong Kong
Brilliant Success Limited (宇盛有限公司)	Investment holding	1 December 2017	Deregistration (Note 7)	Cessation of business	Hong Kong
Fukien Education Centre Limited (福建教育中心有限公司)	Education services	8 September 2017	Deregistration (Note 7)	Cessation of business	Hong Kong

Notes:

- (1) The company has never commenced business.
- (2) Dissolved by deregistration pursuant to section 291AA of the Predecessor Companies Ordinance.
- (3) Striking off pursuant to section 291 of the Predecessor Companies Ordinance.
- (4) Being the date of cessation of place of business in Hong Kong

DIRECTORS AND SENIOR MANAGEMENT

- (5) Continuous Technologies was registered as a non-Hong Kong Company on 30 May 2000.
- (6) According to Dr. Yu, a creditor presented a winding up petition against Metrofive on 2 August 1995 for salary and severance payments. On 4 October 1995, Metrofive was ordered by court to wind up and the official receiver was appointed as the provisional liquidator of the affairs of Metrofive. Liquidators of Metrofive were subsequently released on 10 May 2002. Dr. Yu resigned as director of Metrofive on 17 August 1995.
- (7) Dissolved by deregistration pursuant to section 751 of the Companies Ordinance.

Dr. Yu confirmed (i) save for Metrofive, each of the above companies were solvent at the time of dissolution; (ii) the dissolution of each of the companies did not result from any wrongful act, misconduct or misfeasance on his part; and (iii) as at the Latest Practicable Date, he was not aware of any actual or potential claim which has been or will be made against him as a result of the dissolution of each of the above companies.

Mr. Lai Man Sing (黎文星), aged 51, was appointed as our independent non-executive Director on 22 January 2020. He is primarily responsible for providing independent advice and judgment on the strategy, performance, resources and standard of conduct of our Company.

Mr. Lai has been an executive director of Mainland Headwear Holdings Limited (“**MHH**”) (stock code: 1100), a company listed on the Main Board of the Stock Exchange, since December 2019.

Mr. Lai has over 20 years of experience in accounting. He worked as a supervisor in the audit division of Coopers & Lybrand (now known as PricewaterhouseCoopers) from January 1991 to February 1996. He worked as a financial controller at Benswick Development Limited (a group company of Simply Noble Limited) from July 1997 to June 1999. He worked as a finance director at MHH, a company that principally engages in the manufacturing, distribution and retailing of headwear products, from January 2000 to May 2001, and was principally responsible for managing the finance and accounting departments. He was also the company secretary and executive director of MHH from March 2000 to May 2001. Mr. Lai rejoined MHH in March 2008 as a financial controller, and was promoted to the present position of chief financial officer in February 2010. He is primarily responsible for leading the corporate finance and accounting affairs of MHH and its subsidiaries. From May 2001 to July 2007, he worked as a finance director of GVG Digital Technology Holdings (HK) Ltd. From September 2007 to March 2008, Mr. Lai worked as a financial controller at Jetup Electronic (Shenzhen) Co., Ltd., previously a subsidiary of J.I.C. Technology Company Limited (a company listed on the Main Board of the Stock Exchange and now known as China Renewable Energy Investment Limited (stock code: 987)) before Jetup Electronic (Shenzhen) Co., Ltd. was wholly acquired by Nam Tai Electronics, Inc., (a company listed on the New York Stock Exchange and now known as Nam Tai Property, Inc. (New York Stock Exchange stock code: NTP)), on 31 December 2007.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Lai was an independent director of ACL Semiconductors Inc. (now known as Eagle Mountain Corporation), a company listed on the OTC markets in the United States with stock code EMTC, in December 2010. Mr. Lai was an independent non-executive director of Runway Global Holdings Company Limited, now known as CEFC Hong Kong Financial Investment Company Limited (stock code: 1520), a company that is listed on the Main Board of the Stock Exchange and principally engages in the design, manufacture and trading of apparel, from November 2013 to November 2016.

Mr. Lai graduated from the London School of Economics and Political Science in the United Kingdom with a Bachelor of Science in Management Sciences in August 1990. He subsequently obtained a Bachelor of Business from the University of Southern Queensland in September 1994, and a Master of Business Administration from the University of Western Sydney in August 2007. Mr. Lai was admitted as a fellow of the Hong Kong Institute of Certified Public Accountants in February 2007 and a fellow member of CPA Australia in January 2010.

Dr. Ho Chung Tai Raymond (何鍾泰), SBS, JP, aged 80, was appointed as our independent non-executive Director on 22 January 2020. He is primarily responsible for providing independent advice and judgment on the strategy, performance, resources and standard of conduct of our Company.

Dr. Ho holds a doctorate degree of philosophy in civil engineering from the City University of London, United Kingdom in June 1971; Honorary Doctor of Business Administration Degree from the City University of Hong Kong in November 1999; Doctor of Laws Degree from the University of Manchester, United Kingdom in September 2001; a diploma for advanced studies in soil mechanics engineering from the Victoria University of Manchester in July 1964 and a bachelor degree in engineering from the University of Hong Kong in November 1963. He was also awarded Honorary University Fellow of the University of Hong Kong.

Dr. Ho was formerly a director of Maunsell Consultants Asia Limited from January 1986 to August 1993, with experience in the fields of civil, structural, energy, environmental and geotechnical engineering and in direct project management of many large-sized engineering projects.

DIRECTORS AND SENIOR MANAGEMENT

Dr. Ho served as an independent non-executive director of China State Construction International Holdings Limited (stock code: 3311) from June 2005 to June 2019, a non-executive director and the chairman of SCUD Group Limited (stock code: 1399) since September 2018, an independent non-executive director of AP Rentals Holdings Limited (stock code: 1496) since March 2016, an independent non-executive director of Chinlink International Holdings Limited (stock code: 997) since December 2013, an independent non-executive director of GCL-Poly Energy Holdings Limited (stock code: 3800) since September 2007 and an independent non-executive director of Deson Development International Holdings Limited (stock code: 262) since December 1994. The issued shares of each of the above companies are listed on the Main Board of the Stock Exchange. Currently, Dr. Ho is Chairman of Guangdong Daya Bay Nuclear Power Station and Ling Ao Nuclear Power Station Nuclear Safety Consultative Committee and a professional advisor to The Ombudsman of Hong Kong.

Dr. Ho was a director of the following companies which were solvent prior to their dissolutions. The details of such companies are as follows:

Name of company	Principal business	Date of dissolution	Means of dissolution	Reason for dissolution	Place of incorporation
Ho Poon Kow Investment Company Limited (何本教置業有限公司)	As executor of father's assets	17 December 2010	Deregistration (Note 1)	Cessation of business	Hong Kong
Capital China Timber Products Limited (華都木業製品有限公司)	Timber business	16 January 2004	Deregistration (Note 5)	The company has never commenced business	Hong Kong
Greater Beijing Expressways Limited	–	31 October 2000 (Note 2)	–	Cessation of place of business in Hong Kong	Bermuda (Note 3)
Ho Wang Shea Environmental Sciences Limited (會泰生環境科學有限公司)	Timber business	9 September 2005	Deregistration (Note 5)	Cessation of business	Hong Kong
Public Key Infrastructure Technologies Limited (會泰科技有限公司)	Infrastructure technologies	9 September 2005	Deregistration (Note 5)	Cessation of business	Hong Kong
Zhong Hua Association For The Advancement Of Real Estate And Construction Technology Limited (Note 4) (中華房地產建築業協進會有限公司)	Professional body	8 January 2010	Deregistration (Note 5)	The company has never commenced business	Hong Kong

DIRECTORS AND SENIOR MANAGEMENT

Name of company	Principal business	Date of dissolution	Means of dissolution	Reason for dissolution	Place of incorporation
Zhong Hua Association For The Advancement Of Real Estate And Construction Technology Limited (Note 6) (中華房地產建築業協會有限公司)	Professional body	8 July 2013	Members' voluntary winding up	The principal retired	Hong Kong
Zhong Hua Construction Foundation Limited (中華建設基金會有限公司)	Charity	8 August 2015	Members' voluntary winding up	The principal retired	Hong Kong
Zhong Hua Real Estate And Construction Research And Development Foundation Limited (Note 7) (中華房地產建設研究發展基金會有限公司)	Charity	22 September 2012	Members' voluntary winding up	The principal retired	Hong Kong
Mouchel Ho Wang Limited	Consulting	24 March 2005	Deregistration (Note 5)	Cessation of business	Hong Kong

Notes:

- (1) Dissolved by deregistration pursuant to section 751 of the Companies Ordinance.
- (2) Being the date of cessation of place of business in Hong Kong.
- (3) Greater Beijing Expressways Limited was registered as a non-Hong Kong Company on 17 April 1997.
- (4) Zhong Hua Association For The Advancement Of Real Estate And Construction Technology Limited is a private company limited by shares.
- (5) Dissolved by deregistration pursuant to section 291AA of the Predecessor Companies Ordinance.
- (6) Zhong Hua Association For The Advancement Of Real Estate And Construction Technology Limited is a company limited by guarantee.
- (7) Zhong Hua Real Estate And Construction Research And Development Foundation Limited is a company limited by guarantee.

Dr. Ho confirmed that, (i) the dissolution of each of the above companies did not result from any wrongful act, misconduct or misfeasance on his part; and (ii) as at the Latest Practicable Date, he was not aware of any actual or potential claim which has been or will be made against him as a result of the dissolution of each of the above companies.

Disclosure required under Rule 13.51(2) of the Listing Rules

Save as disclosed above, each of our Directors confirmed with respect to himself that: (i) he has not held directorships in the last three years in other public companies the securities of which are listed on any securities market in Hong Kong or overseas; (ii) he does not have any relationship with any other Directors or senior management or substantial Shareholders or Controlling Shareholders of our Company; (iii) he does not hold any other positions in our Company or any of its subsidiaries; (iv) save as disclosed in the paragraph headed “C. Further information about our Directors and substantial shareholders” in Appendix IV to this prospectus, he does not have any interests in the Shares within the meaning of Part XV of the SFO; (v) there is no other information that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules; and (vi) to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there are no other matters with respect to the appointment of our Directors that need to be brought to the attention of our Shareholders.

BOARD DIVERSITY POLICY

Our Company has adopted a board diversity policy setting out the approach to achieve diversity on our Board. The nomination committee reviews and assesses our Board composition on behalf of our Board and recommends the appointment of new Directors, taking into account a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge, industry and regional experience, and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard to the benefits of diversity on the Board.

Our Board consists of six Directors comprising two executive Directors, one non-executive Director and three independent non-executive Directors. Our Directors have a balanced mix of professional experience, skills, knowledge and experience, including securities trading, risk management, general business administration and management, accounting and civil engineering. Further, our Board has a relatively wide age range, ranging from 34 years old to 81 years old. Taking into account our Group’s existing business model and meritocracy of our Directors, despite the lack of female representation on our Board, our Directors consider that the current composition of our Board satisfies the principles under the board diversity policy of our Company.

Nevertheless, in recognition of the particular importance of gender diversity, our Company’s nomination committee and remuneration committee will use their best efforts to identify and recommend suitable female candidates to our Board for its consideration and our Company aims to appoint at least one female Director by the end of 2020. Our Company will use its best efforts to achieve at least 15% female representation on our Board within three years of Listing.

Going forward, to develop a pipeline of potential successors to our Board that could ensure gender diversity of our Board, our Company will (i) consider the possibility of nominating female senior management who have the necessary skills and experience to our Board; (ii) ensure that there is gender diversity when recruiting staff at mid to senior level; and (iii) engage more resources in training female staff with the aim of promoting them to the senior management or directorship of our Company.

DIRECTORS AND SENIOR MANAGEMENT

The nomination committee will disclose the composition of our Board annually in the corporate governance report and will monitor the implementation of the board diversity policy. The nomination committee will review the board diversity policy and assess its effectiveness, and where necessary, discuss any revisions that may be required and recommend any such revisions to our Board for consideration and approval.

For details of the composition of the nomination committee, please refer to the paragraph headed “Board committees – Nomination committee” in this section.

SENIOR MANAGEMENT

Name	Age	Present position	Date of joining our Group	Roles and responsibilities	Relationship with other Director(s) and/or senior management
Mr. Wu Man Sun (胡民新)	35	Chief finance officer and company secretary	1 January 2018	Responsible for overseeing our Group’s financial reporting, financial planning, financial control and company secretarial matters	Nil
Mr. Lam Suen Kit (林宣傑)	42	Executive director of equity capital markets department	15 August 2016	Responsible for overseeing the equity capital markets department and identifying and pitching to potential clients	Nil

Mr. Wu Man Sun (胡民新), aged 35, joined our Group on 1 January 2018 as the chief finance officer of Sinomax Securities. He is primarily responsible for overseeing our Group’s financial reporting, financial planning, financial control and company secretarial matters.

Prior to joining our Group, Mr. Wu worked in the Assurance and Business Advisory Department of Mazars CPA Limited as an associate from September 2009 to February 2011. He also worked in the Audit Department of Deloitte Touche Tohmatsu as an associate from February 2011 to September 2011, senior associate from October 2011 to September 2014 and manager from October 2014 to October 2015. Mr. Wu also worked in the Post-investment Management Department of China Huarong International Holdings Limited from January 2016 to October 2017, with his last position as manager.

Mr. Wu graduated from the University of Hong Kong with a Bachelor of Science in November 2008. He obtained his Postgraduate Diploma in Professional Accounting from the School of Professional and Continuing Education of the University of Hong Kong in April 2009. Mr. Wu has been a member of the Hong Kong Institute of Certified Public Accountants since January 2013.

Mr. Lam Suen Kit (林宣傑), aged 42, joined our Group on 15 August 2016 as an executive director of the equity capital markets department of Sinomax Securities. He has been a responsible officer of Sinomax Securities for type 1 (dealing in securities) regulated activity since October 2016. He is primarily responsible for overseeing the equity capital markets department and identifying and pitching to potential clients.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Lam has over 14 years of experience in the finance industry. Prior to joining our Group, Mr. Lam worked in TPG Capital Ltd. as an analyst from January 2005 to June 2008 where he was involved in, among others, conducting early stage investment screenings and assisting in fund raising activities. He also worked in China Merchants Securities (HK) Co., Limited as a licensed representative for type 1 (dealing in securities) regulated activity from December 2009 to July 2011 and Quam Securities Company Limited (now known as China Tonghai Securities Limited) as a licensed representative for type 1 (dealing in securities) regulated activity from August 2011 to March 2014 and type 6 (advising on corporate finance) from August 2012 to March 2014. Mr. Lam worked in RHB Securities Hong Kong Limited as a licensed representative for type 1 (dealing in securities) regulated activity from April 2014 to April 2016 and type 6 (advising on corporate finance) regulated activity from December 2015 to August 2016. He served as a responsible officer of RHB Securities Hong Kong Limited for type 1 (dealing in securities) regulated activity from April 2016 to August 2016.

Mr. Lam graduated from the University of Technology, Sydney with a Bachelor of Business in May 2002.

Each of our senior management has not held directorships in the last three years in any public companies the securities of which are listed on any securities market in Hong Kong or overseas and has not had any relationship with any Directors, other senior management or Controlling Shareholders of our Company.

COMPANY SECRETARY

Mr. Wu Man Sun (胡民新), aged 35, was appointed as the company secretary of our Company on 16 January 2019. Please refer to the paragraph headed “Senior management” in this section for details of his biography.

BOARD COMMITTEES

Audit Committee

We established our audit committee in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code pursuant to a resolution of our Board passed on 22 January 2020 with written terms of reference in compliance with code provision C.3 of the Corporate Governance Code. The primary duties of the audit committee are to assist our Board in providing an independent view on the effectiveness of our Group’s financial reporting process, internal control and risk management systems, to oversee the audit process, and to perform other duties and responsibilities as assigned by our Board.

Our audit committee consists of all of our independent non-executive Directors, namely Mr. Lai Man Sing, Dr. Yu and Dr. Ho Chung Tai Raymond. Mr. Lai Man Sing is the chairman of our audit committee.

DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee

We established our remuneration committee in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code pursuant to a resolution of our Board passed on 22 January 2020 with written terms of reference in compliance with code provision B.1 of the Corporate Governance Code. The primary duties of the remuneration committee include (without limitation): (i) making recommendations to our Directors on the policy and structure of all remuneration of our Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) determining the terms of the specific remuneration package of each of our Directors and senior management; and (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by our Directors from time to time.

Our remuneration committee consists of the chairman of our Company and two independent non-executive Directors, namely Dr. Yu, Mr. Lai Man Sing and Mr. Keng, respectively. Dr. Yu is the chairman of our remuneration committee.

Nomination Committee

We established our nomination committee in compliance with the Corporate Governance Code pursuant to a resolution of our Board passed on 22 January 2020 with written terms of reference in compliance with code provision A.5 of the Corporate Governance Code. The primary function of the nomination committee is to make recommendations to our Board in relation to the appointment and removal of our Directors and on matters of succession planning.

Our nomination committee consists of the chairman of our Company and two independent non-executive Directors, namely Mr. Keng, Dr. Yu and Mr. Lai Man Sing, respectively. Mr. Keng is the chairman of our nomination committee.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The aggregate amount of remuneration including fees, salaries, contributions to pension schemes, allowances, benefits in kind and discretionary bonuses which were paid by our Group to our Directors for the years ended 31 March 2017, 2018 and 2019 and for the four months ended 31 July 2018 and 31 July 2019 were approximately HK\$511,000, HK\$630,000, HK\$913,000, HK\$186,000 (unaudited) and HK\$538,000 respectively.

Under the arrangements currently in force, the aggregate remuneration and benefits in kind payable by our Group to our Directors for the year ending 31 March 2020 and 31 March 2021 is expected to be approximately HK\$1,668,000 and HK\$2,298,000 respectively. The expected increase in remuneration of our Directors for the year ending 31 March 2021 is due to the increase in basic annual remuneration of our non-executive Director upon the Listing and the remuneration payable to our independent non-executive Directors upon the Listing.

DIRECTORS AND SENIOR MANAGEMENT

Under the arrangements currently proposed, conditional upon the Listing, the basic annual remuneration (other than payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of our Directors for the year ending 31 March 2021 will be as follows:

Executive Directors	<i>HK\$</i>
Mr. Sy	822,000
Mr. Ng	756,000
Non-executive Director	<i>HK\$</i>
Mr. Keng	360,000
Independent non-executive Directors	<i>HK\$</i>
Dr. Yu	120,000
Dr. Ho Chung Tai Raymond	120,000
Mr. Lai Man Sing	120,000

Such proposed remunerations of our Directors are determined by our Company with reference to the duties and level of responsibilities of each Director, the remuneration policy of our Company (which shall have reference to performance and competence displayed by our Directors and market comparable) and the prevailing market conditions. Following the Listing, remuneration of our Directors, which may include discretionary benefits, bonuses and other fringe benefits, will be linked to their performance, which shall be subject to the annual review of our remuneration committee.

The aggregate amount of remuneration including fees, salaries, contributions to pension schemes, allowances, benefits in kind and discretionary bonuses which were paid by our Group to the five highest paid individuals (including director(s)) for the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2018 and 31 July 2019 were approximately HK\$1,892,000, HK\$5,467,000, HK\$6,720,000, HK\$2,644,000 (unaudited) and HK\$1,779,000 respectively. Save as disclosed in this prospectus, no other remuneration has been paid, or are payable, by our Group to our Directors and the five highest paid individuals in respect of each of the years ended 31 March 2017, 2018 and 2019 and the four months ended 31 July 2018 and 31 July 2019.

DIRECTORS AND SENIOR MANAGEMENT

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

For additional information on our Directors' remuneration during the Track Record Period as well as information on the five highest paid individuals, please refer to the Accountants' Report set out in Appendix I to this prospectus.

CORPORATE GOVERNANCE

Our Directors are committed to achieving high standards of corporate governance with a view to safeguarding the interests of the Shareholders. To accomplish this, our Group will comply with the Corporate Governance Code (as set out in Appendix 14 to the Listing Rules) as well as other applicable provisions of the Listing Rules.

Our Company's corporate governance practices are based on principles and code provisions as set out in the Corporate Governance Code in Appendix 14 of the Listing Rules.

COMPLIANCE ADVISER

In compliance with Rule 3A.19 of the Listing Rules, we have appointed Vinco Capital as our compliance adviser to provide advisory services to our Company. Our Group shall consult with and seek advice from the compliance adviser on a timely basis and the compliance adviser will, amongst other things, advise our Company with due care and skill in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- where we propose to use the proceeds from the Share Offer in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares or any other matters under Rule 13.10 of the Listing Rules.

The term of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

During the Track Record Period, we entered into certain transactions with parties who will, upon completion of the Listing, become our connected persons (where applicable, including their associates) pursuant to the Listing Rules. Some of these transactions are expected to continue after the Listing, thereby constituting connected transactions under the Listing Rules. Our Directors confirm that they are of the view that these continuing connected transactions were and will be conducted in our normal course of business and based on normal commercial terms. Save as disclosed in this prospectus, our Directors have confirmed that no other expenses have been paid by the connected person on behalf of or for the benefit of our Group during the Track Record Period and up to the Latest Practicable Date.

Each of the persons stated below, who will become connected persons (where applicable, including their associates) upon the Listing, had and will continue to have transactions with our Company.

Connected person (<i>Note</i>)	Connected relationship
Mr. Sy	Our executive Director and the chief executive officer of our Group
Mr. Ng	Our executive Director
Mr. Keng	Our non-executive Director, chairman of our Board and our Controlling Shareholder
Ms. Yeung	Our Controlling Shareholder

Note: Associates of the connected persons listed above who have maintained an account(s) with Sinomax Securities and had received brokerage services, and/or margin financing services from our Group during the Track Record Period are not listed.

CONNECTED TRANSACTIONS

EXEMPTED CONTINUING CONNECTED TRANSACTIONS

Commissions, fees and interest income from our connected persons (where applicable, including their associates) in relation to our provision of brokerage services and margin financing services

During the Track Record Period, Mr. Sy, Mr. Ng, Mr. Keng, Ms. Yeung and Dr. Yu (where applicable, including their associates) received brokerage services, margin financing services and/or investment advisory services from Sinomax Securities from time to time on normal commercial terms and at rates no more favourable than those offered to (i) our staff and/or (ii) other clients of Sinomax Securities who were Independent Third Parties with similar background and/or nature. Dr. Yu closed his accounts with Sinomax Securities on 28 July 2018. After the Listing, Sinomax Securities intends to continue to conduct transactions with each of these connected persons (where applicable, including their associates). Following our Directors' deliberation, it was noted that pursuant to paragraph 12.2 of the Code of Conduct, employees should generally be required to deal through the licensed or registered person or its affiliates, and for the purposes of paragraph 12.2 of the Code of Conduct, the term "employees" includes directors of a licensed or registered person. For compliance with this paragraph of the Code of Conduct, our Directors considered it appropriate to require Mr. Sy, Mr. Ng, Mr. Keng and Ms. Yeung to conduct their personal securities dealing activities (being the aforesaid, brokerage services and margin financing services) through Sinomax Securities after the Listing.

Historical transactions amount with our connected persons (where applicable, including their associates)

The following table sets forth the amounts of commissions, fees and interest income received from our connected persons (where applicable, including their associates) in relation to the provision of brokerage services, margin financing services and investment advisory services for the Track Record Period:

	For the year ended 31 March					
	2017		2018		2019	
	Revenue	% of total	Revenue	% of total	Revenue	% of total
	HK\$'000	revenue	HK\$'000	revenue	HK\$'000	revenue
Brokerage services income	674	1.9	858	1.5	878	1.3
Interest income from margin financing services	192	0.5	116	0.2	237	0.4
Investment advisory fee	—	—	450	0.8	50	0.1
Total	<u>866</u>	<u>2.4</u>	<u>1,424</u>	<u>2.5</u>	<u>1,165</u>	<u>1.8</u>

CONNECTED TRANSACTIONS

Annual caps under the Brokerage Services Agreement for each of the three years ending 31 March 2022

Pursuant to the Brokerage Services Agreement dated 22 January 2020 and entered into among Sinomax Securities, Mr. Sy, Mr. Ng, Mr. Keng and Ms. Yeung, Sinomax Securities may (but is not obliged to), upon request, provide to each of them (where applicable, including their associates), brokerage services and margin financing services, on normal commercial terms and at rates comparable to rates offered to (i) our staff and/or (ii) other clients of Sinomax Securities who are Independent Third Parties with similar background and/or nature as our connected persons, and in accordance with the policy of Sinomax Securities from time to time. Set out below are the principal terms of the Brokerage Services Agreement:

Period:	From the Listing Date up to 31 March 2022	
Termination:	7 days' notice in writing by either party, or forthwith by Sinomax Securities by written notice if required by the Listing Rules, or imposed by the Stock Exchange, or if the transactions contemplated under the Brokerage Services Agreement cannot be complied with by Sinomax Securities	
Commission, fee and interest rate:	<i>Brokerage services</i>	
	Securities brokerage commission (for trading in Hong Kong securities)	0.1% to 0.25% of transaction value (with a minimum charge of HK\$50)
	Securities brokerage commission (for trading in overseas securities)	0.1% to 0.25% of transaction value plus an amount equivalent to the fees charged by third party broker(s)
	Handling and scrip fee income	Fixed charge on one time basis depending on the nature of service
<i>Margin financing services</i>		
	Interest	Ranging from Hong Kong Prime Rate +2% to +7% per annum

CONNECTED TRANSACTIONS

The annual caps for each of the years ending 31 March 2020, 2021 and 2022 respectively are proposed as follows:

	For the year ended 31 March		
	2020	2021	2022
	HK\$'000	HK\$'000	HK\$'000
Brokerage services income	1,100	1,100	1,100
Interest income from margin financing services	500	500	500

In determining the above annual caps under the Brokerage Services Agreement, our Directors have taken into consideration the following principal factors:

- the actual revenue generated from the provision of brokerage services and margin financing services to our connected persons (where applicable, including their associates) during the Track Record Period;
- the expected increase in our Group's commission and brokerage income from executing or facilitating the execution of trades of connected persons and/or their associates, assuming there will be improvement in the capital market in the forthcoming years; and
- the expected increase in our interest income, assuming our connected persons (where applicable, including their associates) will increase their utilisation of margin loan facilities we may make available to them on the basis that the capital market will improve in the forthcoming years.

Listing Rules implications

The Brokerage Services Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of our Company upon the Listing under the Listing Rules. As the relevant applicable percentage ratios in respect of the proposed annual caps on an annual basis are less than 5%, and the annual consideration is less than HK\$3 million, the continuing connected transactions are fully exempt from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

Confirmation from our Directors

Our Directors (including our independent non-executive Directors) consider that (i) the exempt continuing connected transactions as set out under the Brokerage Services Agreement have been and will be entered into in the ordinary and usual course of our business, on normal commercial terms or on terms better to us, and are fair and reasonable and in the interests of our Company and Shareholders as a whole; and (ii) the annual caps under the Brokerage Services Agreement for our connected persons as set out above are on normal commercial terms which are fair and reasonable and in the interests of our Company and Shareholders as a whole.

Details of the continuing connected transactions will be disclosed in our annual reports after Listing.

CONTROLLING SHAREHOLDERS

Immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued by our Company pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), 75% of the issued share capital of our Company will be owned by Man Chase, which is owned as to 60% by Mr. Keng and 40% by Ms. Yeung. As such, each of Man Chase, Mr. Keng and Ms. Yeung is a controlling shareholder of our Company within the meaning of the Listing Rules.

Save as disclosed above, there is no other person who will, immediately following the completion of the Share Offer and the Capitalisation Issue, be directly or indirectly interested in 30% or more of the Shares then in issue or have a direct or indirect equity interest in any member of our Group representing 30% or more of the equity in such entity.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, we believe that our Group is capable of carrying on our business independently of our Controlling Shareholders and their respective associates (other than our Group) after the Listing.

(i) Management independence

The day-to-day management and operation of the business of our Group will be the responsibilities of all of our executive Directors and senior management of our Company. Our Board consists of six Directors comprising two executive Directors, one non-executive Director and three independent non-executive Directors. Mr. Keng, our non-executive Director, is also one of our Controlling Shareholders. Save for Mr. Keng, none of the other Directors nor any of the members of our senior management is a Controlling Shareholder.

As at the Latest Practicable Date, no Director has overlapping roles or responsibilities in any business other than our business nor has any business which competes or is likely to compete, either directly or indirectly, with our business. Each of our Directors is aware of his fiduciary duties as a director which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his interest to exist. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant meeting of our Board in respect of such transaction and shall not be counted in the quorum.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Further, we consider that our Board and senior management will function independently from our Controlling Shareholders because: (i) the independent non-executive Directors will bring independent judgement to the decision making process of our Board; (ii) all our Directors are sufficiently experienced and capable of monitoring the operations of our Group independently of our Controlling Shareholders or any interested Director(s); and (iii) our senior management is independent and possesses in-depth experience and understanding of the industry in which our Group is engaged. Based on the above, our Directors are satisfied that our Board as a whole together with our senior management team are able to perform the managerial role in our Group independently.

(ii) Operational independence

Our operations are independent of and not connected with any of our Controlling Shareholders. Having considered that (i) we have an independent management team to handle our day-to-day operations and have established our own organisational structure comprising individual departments, each with specific areas of responsibilities; (ii) our Group has our own independent access to resources required for our operation and has not shared our operational resources, such as marketing, sale and general administration resources with our Controlling Shareholders and/or their associates; (iii) our Group has also established a set of internal controls to facilitate the effective operation of our business; (iv) as at the Latest Practicable Date, our Controlling Shareholders have no interest in any of our client, supplier or other business partners; (v) as at the Latest Practicable Date, our Group had independent access to suppliers or clients of our Group; (vi) all of our operating subsidiaries hold the licences necessary for the operation of our Group's business in their own names; and (vii) the registered trademarks and other intellectual property necessary or desirable for our business are registered in the name of our Group, our Directors consider that our Group can operate independently from our Controlling Shareholders from an operational perspective.

Taking into account the above, our Directors are satisfied that our Group's business operation does not rely on our Controlling Shareholders. Our Group has been operating independently from our Controlling Shareholders during the Track Record Period and will continue to operate independently upon Listing.

(iii) Administrative independence

Our Group has our own resources and personnel to perform all essential administrative functions, including internal control, financial and accounting management, invoicing and billing, human resources and information technology.

Accordingly, our Directors are of the view that our Company has been administratively independent from our Controlling Shareholders during the Track Record Period and will continue to be independent from an administrative perspective upon Listing.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

(iv) Financial independence

During the Track Record Period, each of Mr. Keng and Ms. Yeung provided an interest free loan to Sinomax Securities in the principal amount of HK\$9,000,000 and HK\$6,000,000, respectively. The loans were repaid in full by Sinomax Securities to Mr. Keng and Ms. Yeung in April 2016. Excluding these loans, during the Track Record Period our Group did not rely on any financial assistance of any form from our Controlling Shareholders. Our Directors consider that our Group is generally able to obtain external financing on market terms and conditions for our business operations as and when required independently and without material financial or collateral support from our Controlling Shareholders and that such financing capability will likely be materially enhanced following the Listing. In addition, our Company has established its own internal control, accounting and financial systems that operate independently from our Controlling Shareholders.

Furthermore, our Directors are of the opinion that the financing needs of our Group will be satisfied by income generated from our ordinary course of business, the proceeds from the Listing, and where necessary, from capital raising activities on a stand-alone basis without reliance on our Controlling Shareholders.

For the reasons above, our Directors are of the view that our Group is not financially dependent on our Controlling Shareholders or their respective close associates in our business operations, and is capable of operating independently from our Controlling Shareholders from a financial perspective upon and after the Listing.

RULE 8.10 OF THE LISTING RULES

None of our Controlling Shareholders, our Directors and their respective close associates has any interest in a business apart from our Group's business which competes or is likely to compete, directly or indirectly, with our Group's business, and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

DEED OF NON-COMPETITION

Our Controlling Shareholders have entered into the Deed of Non-competition in favour of our Company (for ourselves and as trustee of our subsidiaries), pursuant to which our Controlling Shareholders have jointly and severally, irrevocably and unconditionally undertaken to and covenanted with our Company (for ourselves and for the benefit of our subsidiaries) that during the continuation of the Deed of Non-competition, each of our Controlling Shareholders would not, and would procure that its or his close associates (other than any member of our Group) would not, whether on its or his own account or in conjunction with or on behalf of any person, firm or company, whether directly or indirectly, carry on a business which is, or be interested or involved or engaged in or acquire or hold any right or interest or otherwise involved in (in each case whether as a shareholder, partner, principal, agent, director, employee or otherwise and whether for profit, reward or otherwise) any business which competes or is likely to compete directly or indirectly with the business currently and from time to time engaged by our Group (including but not limited to the provision of (i) brokerage services; (ii) margin financing services; (iii) placing and underwriting services; (iv) investment advisory; and (v) such other business of our Group, in

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

each case, as described in this prospectus), in Hong Kong and any other country or jurisdiction to which our Group provides such services and/or in which any member of our Group carries on such businesses from time to time (the “**Restricted Business**”). Such non-competition undertaking does not apply to:

- (i) any interests in the shares of any member of our Group; or
- (ii) interests in the shares of a company other than our Company whose shares are listed on a recognised stock exchange provided that:
 - (a) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 5% of that company’s consolidated revenue or assets, as shown in that company’s latest audited accounts; or
 - (b) the total number of the shares held by our Controlling Shareholders and/or their respective close associates in aggregate does not exceed 5% of the issued shares of that class of the company in question and such Controlling Shareholders and/or their respective close associates are not entitled to appoint a majority of the directors of that company and at any time there should exist at least another shareholder of that company whose shareholdings in that company should be more than the total number of shares held by our Controlling Shareholders and their respective close associates in aggregate; or
 - (c) our Controlling Shareholders and/or their respective close associates do not have the control over the board of such company.

The Deed of Non-competition shall take effect upon Listing and shall expire on the earlier of:

- (a) the day on which the Shares cease to be listed on the Stock Exchange or other recognised stock exchange; or
- (b) the day on which our Controlling Shareholders and his/its close associates, individually or taken as a whole, cease to own, in aggregate, 30% or more of the then issued share capital of our Company directly or indirectly or cease to be deemed as Controlling Shareholders and do not have power to control our Board or there is at least one other independent shareholder other than our Controlling Shareholders and his/its close associates holding more shares than our Controlling Shareholders and his/its close associates taken together.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Pursuant to the Deed of Non-competition, each of our Controlling Shareholders has undertaken that if each of our Controlling Shareholders and/or any of his/its close associates is offered or becomes aware of any project or new business opportunity (“**New Business Opportunity**”) that relates to the Restricted Business, whether directly or indirectly, he/it shall (i) promptly within ten Business Days notify our Company in writing of such opportunity and provide such information as is reasonably required by our Company in order to enable our Company to come to an informed assessment of such New Business Opportunity; and (ii) use his/its best endeavours to procure that such opportunity is offered to our Company on terms no less favourable than the terms on which such New Business Opportunity is offered to him/it and/or his/its close associates.

If our Group has not given written notice of its desire to invest in such New Business Opportunity or has given written notice denying the New Business Opportunity within thirty (30) Business Days (the “**30-day Offering Period**”) of receipt of notice from our Controlling Shareholders, our Controlling Shareholders and/or his/its close associates shall be permitted to invest in or participate in the New Business Opportunity on his/its own accord. With respect to the 30-day Offering Period, our Directors consider that such period is adequate for our Company to assess any New Business Opportunity. In the event that our Company requires additional time to assess a New Business Opportunity, our Company may give a written notice to our Controlling Shareholders during the 30-day Offering Period and our Controlling Shareholders may agree to extend the period to a maximum of 60 Business Days.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to manage the conflict of interests arising from potential competing business between our Controlling Shareholders and our Group and to safeguard the interests of our Shareholders:

- our independent non-executive Directors will review, on an annual basis, the compliance with the non-competition undertaking by our Controlling Shareholders under the Deed of Non-competition;
- 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;
- our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition in the annual report of our Company;
- our Controlling Shareholders will make an annual declaration on compliance with their undertaking under the Deed of Non-competition in the annual report of our Company;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- in the event that connected transactions, if any, between our Group and other business in which any of our Directors or their respective close associates has any interest are submitted to our Board for consideration, the relevant interested Director shall abstain from voting on the resolutions at the meeting of our Board approving such matters and shall not be counted in the quorum of such meeting, and such connected transactions shall be approved by a majority of votes of the non-interested Directors; and
- our independent non-executive Directors may appoint independent financial advisers and other professional advisers as they consider appropriate to advise them on any matter relating to the Deed of Non-competition or connected transaction(s) at the cost of our Company.

Further, any transaction that is proposed between our Group and/or our Controlling Shareholders and their respective close associates will be required to comply with the requirements of the Listing Rules, including, where appropriate, the reporting, annual review, announcement and independent shareholders' approval requirements.

None of the members of our Group has experienced any dispute with its shareholders or among its shareholders themselves and our Directors believe that each member of our Group has maintained positive relationship with its shareholders. With the corporate governance measures including the measures set out above in place, our Directors believe that the interests of our Shareholders will be protected.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued by our Company pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), the following persons will have interests or short positions in our Shares or underlying Shares which would be required 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 directly or indirectly, be interested in 10% or more of the issued shares 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 held/ interested in ^(Note 1)	Percentage of shareholding immediately following completion of the Capitalisation Issue and the Share Offer
Man Chase	Beneficial owner ^(Note 2)	750,000,000 (L)	75%
Mr. Keng	Interest of a controlled corporation ^(Note 2)	750,000,000 (L)	75%
Ms. Yeung	Interest of a controlled corporation ^(Note 2)	750,000,000 (L)	75%
Ms. Mei Ngar Cindy Sze	Interest of spouse ^(Note 3)	750,000,000 (L)	75%
Mr. Ng Hoi Shuen	Interest of spouse ^(Note 4)	750,000,000 (L)	75%

Notes:

1. The letter “L” denotes the long position in the Shares.
2. Man Chase is owned as to 60% by Mr. Keng and 40% by Ms. Yeung. Therefore, each of Mr. Keng and Ms. Yeung is deemed to be interested in the Shares held by Man Chase under the SFO.
3. Ms. Mei Ngar Cindy Sze is the spouse of Mr. Keng.
4. Mr. Ng Hoi Shuen is the spouse of Ms. Yeung.

Save as disclosed above, our Directors are not aware of any person who will, immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued by our Company pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), have an interest or short position in the Shares or underlying Shares which would be required 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, directly or indirectly, be interested in 10% or more of the issued shares of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group.

SHARE CAPITAL

SHARE CAPITAL

The authorised and issued share capital of our Company before and immediately following the completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued by our Company pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme) are as follows:

<i>Authorised share capital:</i>		<i>HK\$</i>
5,000,000,000	Shares	<u>50,000,000</u>
<i>Shares in issue or to be issued, fully paid or credited as fully paid:</i>		
10,000	Shares in issue as at the date of this prospectus	100
749,990,000	Shares to be issued pursuant to the Capitalisation Issue	7,499,900
<u>250,000,000</u>	Shares to be issued pursuant to the Share Offer	<u>2,500,000</u>
<u>1,000,000,000</u>	Total	<u>10,000,000</u>

Assuming the Over-allotment Option is exercised in full, the issued share capital of our Company immediately following the completion of the Capitalisation Issue and the Share Offer will be increased by HK\$375,000 divided into 37,500,000 Shares to HK\$10,375,000 divided into 1,037,500,000 Shares.

ASSUMPTIONS

The table as shown above assumes the Share Offer will become unconditional and does not take into account any Shares which may be allotted and issued by our Company pursuant to the exercise of the Over-allotment Option, or any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates granted to our Directors to allot and issue or repurchase Shares as described below or otherwise.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08(1) of the Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the “minimum prescribed percentage” of 25% of the total issued share capital of our Company in the hands of the public (as defined in the Listing Rules).

SHARE CAPITAL

RANKING

The Offer Shares are ordinary shares and will rank *pari passu* in all respects with all the Shares in issue or to be issued as mentioned in this prospectus and will qualify in full for all dividends and other distributions declared, paid or made on the Shares in respect of a record date which falls after the Listing Date (except for the entitlements under the Capitalisation Issue).

CAPITALISATION ISSUE

Pursuant to the written resolutions of our sole Shareholder passed on 22 January 2020, subject to the share premium account of our Company being credited as a result of the Share Offer, our Directors are authorised to allot and issue a total of 749,990,000 Shares credited as fully paid at par to the holder(s) of Shares whose name(s) appears on the register of members of our Company at the close of business on 22 January 2020 in proportion to their respective shareholdings (save that no Shareholder shall be entitled to be allotted or issued any fraction of a Share) by way of capitalisation of the sum of HK\$7,499,900 standing to the credit of the share premium account of our Company, and our Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme which will be come effective upon the Listing. The principal terms of the Share Option Scheme are summarised in the section headed “D. Share Option Scheme” in Appendix IV to this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Conditional on the fulfilment or waiver (as applicable) of the conditions as set out in the section headed “Structure and conditions of the Share Offer – Conditions of the Share Offer” of this prospectus, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such securities convertible into Shares, and to make or grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with subject to the requirement that the aggregate number of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued (otherwise than pursuant to a rights issue, or scrip dividend scheme or similar arrangements, or a specific authority granted by our Shareholders) shall not exceed:

- (a) 20% of the number of Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued by our Company pursuant to the exercise of the Over-allotment Option or the exercise of any options which may be granted under the Share Option Scheme); and
- (b) the number of Shares repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares granted to our Directors as referred to in the paragraph headed “General mandate to repurchase Shares” below.

SHARE CAPITAL

This general mandate does not apply to situations where our Directors allot, issue or deal with Shares by way of rights issue, script dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of whole or part of a dividend in accordance with the Articles or pursuant to the grant of options under the Share Option Scheme or any other share option scheme that may be adopted by our Company from time to time or other similar arrangements or pursuant to the Share Offer (including exercise of the Over-allotment Option), or pursuant to the exercise of any subscription or conversion rights attaching to any warrants or any securities which are convertible into Shares or in issue prior to the date of the passing of the relevant resolution.

This general mandate to issue shares will remain in effect until the earliest of:

- (a) the conclusion of the next annual general meeting of our Company;
- (b) the expiration of the period within which our Company is required by the Companies Law or the Articles or other applicable laws to hold its next annual general meeting; or
- (c) the time when such mandate is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate, please refer to the paragraph headed “A. Further information about our Group – 3. Written resolutions of our sole Shareholder dated 22 January 2020” in Appendix IV to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Conditional on the fulfilment or waiver (as applicable) of the conditions set out in the section headed “Structure and conditions of the Share Offer – Conditions of the Share Offer” of this prospectus, our Directors have been granted a repurchase mandate, which is a general mandate to exercise all the powers of our Company to repurchase Shares of not more than 10% of the number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued by our Company pursuant to the exercise of the Over-allotment Option or the exercise of any options which may be granted under the Share Option Scheme).

This general mandate to repurchase shares only relates to repurchases made on the Main Board, 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), which are made in accordance with all applicable laws and the requirements of the Listing Rules. Further information required by the Stock Exchange to be included in this prospectus is set out in the section headed “A. Further information about our Group – 7. Repurchase by our Company of its own securities” in Appendix IV to this prospectus.

This general mandate to repurchase shares will remain in effect until the earliest of:

- (a) the conclusion of next annual general meeting of our Company;

SHARE CAPITAL

- (b) the expiration of the period within which our Company is required by the Companies Law or the Articles or any other applicable laws to hold its next annual general meeting; or
- (c) at the time when such mandate is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate to repurchase shares, please refer to the section headed “A. Further information about our Group – 3. Written resolutions of our sole Shareholder dated 22 January 2020” in Appendix IV to this prospectus.

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 method and procedures for holding of general meeting or class meeting of a Cayman Islands exempted company and the circumstance under which such meetings are required are prescribed for under the articles of association of such company. Accordingly, our Company will hold general meetings as prescribed for under the Articles, a summary of which is set out in Appendix III to this prospectus.

FINANCIAL INFORMATION

The following discussion and analysis should be read in conjunction with the consolidated financial information together with the accompanying notes in the Accountants' Report included in Appendix I to this prospectus. Our financial information and the consolidated financial statements of our Group have been prepared in accordance with the HKFRSs, which may differ in certain material aspects from generally accepted accounting principles in other jurisdictions. You should read the whole Accountants' Report and not rely merely on the information contained in this section. Unless the context otherwise requires, financial information in this section is described on a consolidated basis.

The discussion and analysis set forth in this section contains forward-looking statements that involve risks and uncertainties. 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. Our actual results may differ significantly from those projected. Factors that could cause or contribute to such differences include, without limitation, those discussed in the sections headed "Risk factors" and "Business" and elsewhere in this prospectus. Discrepancies between totals and sums of amounts listed in this section in any table or elsewhere in this prospectus may be due to rounding.

OVERVIEW

We are a Hong Kong-based financial services provider founded in July 2001. We are principally engaged in the provision of (i) securities trading services (including brokerage services and margin financing services); and (ii) placing and underwriting services.

We provide services to our clients through our operating subsidiary, Sinomax Securities, which is a corporation licensed to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO, and through such licences we provide financial services including brokerage services, margin financing services, placing and underwriting services as well as investment advisory services in Hong Kong. Sinomax Securities is a HKEX Participant under Category C and currently holds two Stock Exchange Trading Rights. Details of the breakdown of the revenue by business activities of our Group are set out in note 6 of the Accountants' Report contained in Appendix I to this prospectus.

Securities trading services

- (a) **brokerage services:** we provide securities dealing and brokerage services to clients. We act as an intermediary between buyers and sellers of securities listed on the Main Board and GEM of the Stock Exchange and facilitate our clients' trading of securities listed on overseas stock exchange in return for brokerage commission income.
- (b) **margin financing services:** we offer margin financing services to our clients who wish to purchase securities on a margin basis. We provide margin financing to clients for the purchase of securities on the secondary market as well as IPO financing to clients for subscribing shares offered under IPOs, and derive interest income from the provision of margin loans.

FINANCIAL INFORMATION

Placing and underwriting services

We provide placing and underwriting services by acting as (i) bookrunner, lead manager or underwriter of listing applicants in IPOs; and (ii) placing agent of listed companies in connection with the issuance or sale of securities, in return for placing and underwriting services income. We also charge investors a brokerage commission when they subscribe for securities of listed companies or listing applicants through our services.

Investment advisory services

We act as investment advisor to our clients, and provide them with (i) investment advice incidental to our securities trading services which we provide free of charge; and (ii) investment consultancy services (whereby we may be required to meet with clients to discuss investment-related matters upon request) and issue monthly research reports in return for a fee.

Our revenue increased by approximately HK\$21.1 million or 59.1% from approximately HK\$35.7 million for the year ended 31 March 2017 to approximately HK\$56.7 million for the year ended 31 March 2018 and further increased by approximately HK\$8.6 million or 15.1% to approximately HK\$65.3 million for the year ended 31 March 2019. Our revenue increased by approximately HK\$9.5 million or 59.7% from approximately HK\$15.9 million for the four months ended 31 July 2018 to approximately HK\$25.5 million for the four months ended 31 July 2019. Our net profit increased by approximately HK\$19.4 million or 142.3% from approximately HK\$13.6 million for the year ended 31 March 2017 to approximately HK\$33.0 million for the year ended 31 March 2018, and further increased by approximately HK\$4.8 million or 14.4% to approximately HK\$37.8 million for the year ended 31 March 2019. Our net profit increased by approximately HK\$5.4 million or 87.7% from approximately HK\$6.1 million for the four months ended 31 July 2018 to approximately HK\$11.5 million for the four months ended 31 July 2019.

BASIS OF PREPARATION

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law on 7 June 2016 and became the holding company of the companies now comprising our Group upon completion of the Reorganisation, details of which are set out in the section headed “History, Reorganisation and group structure” in this prospectus.

We have prepared our combined financial information for the Track Record Period in accordance with HKFRSs issued by the HKICPA, on the basis of presentation as set out in note 2 of the Accountants’ Report contained in Appendix I to this prospectus.

CRITICAL ACCOUNTING POLICIES

Our Group’s financial information have been prepared in accordance with the HKFRSs. Significant accounting policies adopted by our Group are set forth in details in note 3 and 4 of the Accountants’ Report in Appendix I to this prospectus. Some of the accounting policies involve subjective judgements, estimates and assumptions made by our management, all of which are inherently subject to uncertainties.

FINANCIAL INFORMATION

The following paragraphs summarise the critical accounting policies applied in the preparation of our Group's combined financial statements.

Revenue recognition

Our Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the services underlying in particular performance obligation is transferred to customers. A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control of the goods or services may be transferred over time or at a point in time. If control of the goods or services transfers over time, revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation. Otherwise revenue is recognised at a point in time when the customer obtains control of the distinct good or service. A description of the revenue recognition policies of our key services is as follows.

- (i) **Brokerage services:** commission income from brokerage services is recognised at a point in time on the execution date of the trades at a certain percentage of the transaction value of the trades executed;
- (ii) **Placing and underwriting services:** commission income from placing and underwriting services is recognised at a point in time when the relevant placing and underwriting activities are completed;
- (iii) **Investment advisory services:** income from investment advisory services is recognised over time because customer simultaneously receive and consume the investment advisory services provide by the Group.

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Intangible assets***Trading rights***

Intangible assets represent eligibility rights to trade through a recognised stock exchange in Hong Kong. Intangible assets will indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

As at 31 March 2017, 2018, 2019 and 31 July 2019, intangible asset represents a trading right in the Stock Exchange of Hong Kong Limited (the “SEHK”). Previously, the trading right was considered to have a definite estimated useful life and was amortised over its estimated useful life. Subsequently, the Directors performed a review of the accounting estimates and considered that such trading right has no foreseeable limit to the period over which our Group can use to generate net cash flows. As a result, prior to the Track Record Period, the trading rights was reconsidered by the management of our Group as having an indefinite useful life because it was expected to contribute to net cash inflows indefinitely. Therefore, the trading right ceased to be amortised, instead, it is tested for impairment annually and whenever there is an indication that it may be impaired.

As the trading right is not transferable, the recoverable amounts of the trading right held by our Group has been determined with reference to the recoverable amounts based on a value-in-use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period and at a pre-tax discount rate of 13.84%, 13.34%, 12.19% and 11.54% and growth rate are 0%, 9%, 9% and 9% for the years ended 2017, 2018, 2019 and four months ended 31 July 2019 respectively. The cash flows projections beyond the 5-year period are extrapolated using a steady 1% growth rate. A key assumption for the value-in-use calculation is the growth rate as 0%, 9%, 9% and 9% for the years ended 2017, 2018, 2019 and four months ended 31 July 2019 respectively, which is determined based on management’s expectations for the market development.

FINANCIAL INFORMATION

The table below sets out the sensitivity analysis of the impact of variations in each of the key assumptions, namely the discount rate and the growth rate, on the recoverable amount of the cash-generating unit, where the headroom represents the excess of the recoverable amount over the carrying amount of the trading right.

Headroom

	As at 31 March			As at 31 July
	2017	2018	2019	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Change in discount rate increase (decrease)				
2%	58,654	224,085	121,683	114,075
1%	62,734	241,046	131,842	124,142
0%	67,447	260,780	143,831	136,129
(1%)	72,953	284,022	158,189	150,641
(2%)	79,472	311,792	175,690	168,565

Headroom

	As at 31 March			As at 31 July
	2017	2018	2019	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Change in growth rate increase (decrease)				
(10%)	43,883	174,949	95,144	86,757
(5%)	54,585	214,174	117,355	109,318
0%	67,447	260,780	143,831	136,129
5%	82,808	315,820	175,190	167,807
10%	101,039	380,452	212,110	205,032

Management believes that any reasonably possible change in any of the assumptions would not cause the aggregate recoverable amount of the trading right to fall below the aggregate carrying amount of the trading right.

FINANCIAL INFORMATION

Impairment of financial assets

At the date of initial application, our financial assets previously classified as loans and receivables including bank balances, deposits and accounts receivables continued to be measured at amortised cost. There is no change in measurement basis of the financial assets.

The Group recognises a loss allowance for expected credit loss (“**ECL**”) on financial assets which are subject to impairment, including accounts receivable, deposits, bank balances. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“**12m ECL**”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for accounts receivable arising from placing and underwriting and investment advisory services. To measure the ECL, accounts receivable are assessed individually based on the Group’s historical default rates or default rates by reference to the Probability of Default (“**PP**”), Loss Given Default (“**LGD**”) over the expected life and is adjusted for forward-looking estimates.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

FINANCIAL INFORMATION

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases and leases of low-value assets

The Group applies the recognition exemption for lease of low-value assets. Lease payments on leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use asset is depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets in “property and equipment”, the same line item as that within which the corresponding underlying assets would be presented if they were owned.

Refundable rental deposits

Refundable rental deposits paid are initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

FINANCIAL INFORMATION

Lease liabilities

At the commencement date of the lease, the Group recognises lease liability measured at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, the amount of lease liability is adjusted by interest accretion and lease payments.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

APPLICATIONS OF HKFRS 9 AND HKFRS 15

Our historical consolidated financial information has been prepared based on our underlying financial statements, in which HKFRS 15 “Revenue from Contracts with Customers” was applied to recognise revenue of our brokerage services, placing and underwriting services, investment advisory services and handling and other services and HKFRS 9 “Financial instruments” was applied to recognise interest income from our margin financing services. We have adopted HKFRS 9 since 1 April 2018. The Group has not restated financial information from 1 April 2016 to 31 March 2018 for financial instruments in the scope of HKFRS 9. The financial information from 1 April 2016 to 31 March 2018 related to the financial instruments is reported under HKAS 39 and is not comparable to the information presented for the year ended 31 March 2019 and for the four months ended 31 July 2019. Our Directors consider that the adoption of HKFRS 9 and HKFRS 15 did not have a material impact on financial position and performance of our Group when compared to that of HKAS 39 “Financial instruments: Recognition and measurement” and HKAS 18 “Revenue”.

ADOPTION OF HKFRS 16

Our Group has adopted HKFRS “Leases” since the beginning of, and throughout, the Track Record Period.

Pursuant to HKFRS 16, our Group recognised lease liabilities of HK\$1,377,000 and right-of-use assets of HK\$1,377,000 at 1 April 2016.

Since the Group has consistently applied HKFRS 16 throughout the Track Record Period since the date of initial application, 1 April 2016, our Directors consider that there were no impact on key ratios or financial position and performance when compared to HKAS 17.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

Our financial conditions and results of operation have been and will continue to be affected by a number of factors including in particular the following:

The financial performance of our placing and underwriting services business segment is affected by prevailing market conditions as well as our ability to secure relevant engagements

For the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, we derived approximately 22.0%, 22.7%, 44.2% and 49.9% of our total revenues respectively from the provision of placing and underwriting services, respectively. Such services are provided on a project-by-project basis pursuant to engagements with issuers and lead managers or bookrunners (who may be willing to engage us to participate in capital raising and secondary offering projects from time to time).

We have however not entered into or secured, nor is it customary in our industry for the entering of, any binding agreement or commitments with issuers or lead managers or bookrunners in respect of future engagements, and our ability to secure relevant engagements may be affected by a variety of factors including, without limitation:

- (i) demand for our services which is dependent, to an extent, on the activeness of capital raising in the debt and equity capital markets in Hong Kong, which is in turn affected by various commercial consideration of issuers in light of prevailing market, economic, political and other conditions in Hong Kong (as well as in comparison with other major developed economies) which may affect investor sentiment and appetite. For example, prospective listing applicants and listed issuers may determine to delay, terminate, scale-back or relocate their fund raising plans and/or activities where it is perceived that investment sentiment and appetite has been stemmed by adverse, unfavorable or uncertain market conditions or that the terms of capital raising during such times may not be favorable. The market outlook and business strategies or capital needs of prospective listing applicants and listed issuers may however vary, and they may be subject to different factors of considerations based on their circumstances. Such factors are generally beyond our control;

- (ii) our capability to undertake new projects, and this is largely affected by our financial ability to underwrite securities offerings of prospective listing applicants and listed issuers whilst at the same time complying with capital requirements set out in the FRR. For example, a lead manager or bookrunner engaged by a prospective listing applicant or listed issuer to raise substantive amount capital may wish to seek the participation of underwriters who are capable of covering a meaningful portion of the bookbuilding rather than engage in unnecessarily extensive syndication with large number of underwriters with limited ability to underwrite;
- (iii) our relationship with lead managers and bookrunners, and this is materially affected by our ability to execute engagements in a proficient and professional manner as well as our ability to place securities to investors. In particular, the lead managers and bookrunners of an IPO would be seeking to ensure that the listing applicant would have an adequate spread of shareholders at the time of listing, and as such, would be seeking to engage underwriters who are capable of placing out the securities the subject of the share offering to potential investors as well as assist in their marketing and bookbuilding process in a professional manner.

Our margin financing business is affected by fluctuations in interest rates

Fluctuation in the prevailing interest rates may affect our results of operations in the following ways:

- (i) in respect of our margin and IPO financing business, we charge our clients interest on margin loans on rates which reference the Hong Kong Prime Rate, as such, movements in the Hong Kong Prime Rate may affect our revenue derived from our provision of margin loans. The Hong Kong Prime Rate, which are generally affected by the base rate set by the Hong Kong Monetary Authority (“HKMA”), may be affected by various economic factors including, without limitation, the level of default of borrowings and mortgages in the market; control and effect over inflation; demand and supply in the credit market as well as strengthen of financial institutions;
- (ii) we draw down bank borrowings, overdrafts and advances using bank facilities and credit lines available to us from time to time for the purpose of supporting our margin financing business. As such, the interest rate charged on these facilities and credit lines would directly affect our level of interest expenses, and therefore our interest rate spread and hence profitability; and
- (iii) fluctuations in interest rate may affect the demand in the credit market for borrowing under prevailing market conditions, and which may in turn impact investors’ appetite to borrow for investment into financial markets, including for the purpose of dealing in securities, on a margin basis or otherwise. Our profitability may be affected where our clients become reluctant to borrow to deal in securities at times of unfavorable interest rates, or where they are more willing to borrow to invest at times of favorable interest rates, in each case, against their personal outlook against prevailing market conditions.

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In addition, if the HKMA or other relevant authority to which the banks in Hong Kong are subject may adopt policies or measures that affect banks' ability to make available loans or facilities, which may affect our access to financing for the purpose of on-lending to clients.

Our securities trading services is materially affected by investor sentiment which is in turn affected by prevailing market conditions in Hong Kong and the PRC

The performance of our securities trading services is directly affected by the level of disposal income of our clients and their investment sentiment and appetite which, as our clients are predominantly residents in Hong Kong and the PRC, are indirectly influenced by the prevailing market, economic, political and other conditions in Hong Kong and the PRC. In recent months in particular, it is perceived that investment sentiment has been generally affected by the ongoing trade war between China and the U.S. as well as local political turmoil and civil disobedience movements, although this has not particularly affected the trading volumes of our clients.

Further, as Hong Kong is an international financial center and an open economy, its domestic economy is also affected by other unpredictable changes, such as sudden downturn or sudden change in the global, regional or local economic, political, social, legal environment or government policies, such as fluctuations in global interest rates and Brexit.

In addition, as Hong Kong continues to act as an important offshore RMB center and continues to have a “super connector” role and a key channel for foreign inbound and Chinese outbound investments, our revenue generated from trading of securities by our PRC clients are not only affected by investment sentiment and appetite, level of disposal income as well as sophistication and investment strategies of our PRC clients, but are also affected by political, economic, social, legal conditions and government policies of the PRC, including those policies with Hong Kong which permits “mutual access” of investors of the respective markets. For example, China's policies to liberalize the securities and financial markets (including recent changes permitting full foreign ownership of security brokerages and fund managers) may affect investors' preference in the use of services offered by us, and China's policies on capital controls may affect our PRC clients' transfer of or access to funds for securities trading purposes.

Our financial performance may be affected by our ability to compete in the highly competitive financial and securities services industry in Hong Kong

The financial and securities services industry in Hong Kong is highly competitive due to the vast number of market players in providing securities brokerage services, margin financing services, placing and underwriting services, investment advisory services and asset management services. For details relating to the competitive landscape of our industry, please refer to the section headed “Industry overview” in this prospectus.

Our success in face of intensive competition from our peers would depend on our ability to effectively compete in terms of, among other things, pricing, resources, technological innovation, quality of services and variety of value-added services, which may be enhanced by such factors as brand recognition and reputation, client loyalty, established networks and business relationships, strong corporate governance as well as reliability, accountability and operational transparency as a publicly listed entity. For example, whilst we generally do not engage in price competition nor do we offer plans (such as commission ceiling plans) to remain competitive, our financial performance and profit margins may potentially be affected if our clients are swayed by aggressive pricing policies and marketing strategies of our competitors seeking to grow their client base or expand their market share and discontinue the use of our services.

Our compliance costs and operations may be affected by changes in the regulatory requirements in Hong Kong

The Hong Kong financial services industry is highly regulated and we are subject to and are required to ensure our, and our staff’s, ongoing compliance with different laws, rules, regulations, codes and guidelines (including but not limited to the SFO, the Code of Conduct, the Companies Ordinance, the Predecessor Companies Ordinance, the FRR, the Listing Rules, the GEM Listing Rules and the Takeovers Code) failing which (i) our or relevant staff’s regulatory licenses may be suspended; and (ii) the SFC may take disciplinary action (such as revocation or suspension of licences, public or private reprimand or imposition of pecuniary penalties), impose sanctions and penalties or commence civil or criminal instigations against us, which may materially affect our Group’s reputation, results of operations and financial performance. In order to ensure compliance, we may be required to make material efforts and resources (including staff training, review of internal controls and procedures, reporting lines and corporate governance practices), especially in light of changes in the regulatory landscape and requirements.

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RESULTS OF OPERATIONS OF OUR GROUP

Combined statements of profit or loss and other comprehensive income

The following table sets forth our combined statements of profit or loss and other comprehensive income and other financial information for the Track Record Period, as derived from the Accountants' Report of our Group in Appendix I to this prospectus.

	For the year ended 31 March			For the four months ended 31 July	
	2017	2018	2019	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Revenue	35,656	56,722	65,275	15,948	25,466
Other gains and losses	3	(114)	(172)	(37)	(87)
Other income	489	118	643	125	255
Staff costs	(3,186)	(4,697)	(5,268)	(1,787)	(2,126)
Finance costs	(79)	(204)	(372)	(53)	(457)
Impairment loss, net of reversal	–	(365)	365	–	–
Commission expenses	(1,299)	(4,627)	(5,994)	(2,092)	(1,290)
Listing expenses	(96)	(1,896)	(1,891)	(1,158)	(5,096)
Other expenses	(8,824)	–	(1,289)	(1,289)	–
Depreciation of property and equipment	(1,688)	(1,771)	(1,774)	(592)	(588)
Other operating expenses	(2,972)	(3,283)	(3,933)	(1,317)	(1,403)
Profit before taxation	18,004	39,883	(45,590)	7,748	14,674
Taxation	(4,375)	(6,854)	(7,809)	(1,627)	(3,183)
Profit and total comprehensive income for the year/period	<u>13,629</u>	<u>33,029</u>	<u>37,781</u>	<u>6,121</u>	<u>11,491</u>

PRINCIPAL COMPONENTS OF OUR RESULTS OF OPERATIONS

The following discussion is based on the Group's historical results of operations and may not be indicative of the Group's future operating performance.

Revenue

During the Track Record Period, our revenue included (i) commission and brokerage income derived from provision of brokerage services; (ii) interest income from the provision of margin financing services; (iii) interest income from cash clients who default to settle trade executed through us; (iv) placing and underwriting services income; (iv) investment advisory services fee income; and (v) handling and other fee income generated ancillary to our securities trading services.

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Set out below is the breakdown of revenue by business activity for the Track Record Period.

	For the year ended 31 March						For the four months ended 31 July			
	2017		2018		2019		2018		2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
							(unaudited)			
Commission and brokerage income derived from securities dealing in										
– Market in Hong Kong	16,634	46.6	30,753	54.2	21,258	32.6	5,683	35.6	6,984	27.4
– Markets outside Hong Kong	17	0.1	378	0.7	67	0.1	–	–	17	0.1
Interest income from										
– Margin clients	9,891	27.7	10,293	18.1	12,826	19.6	3,196	20.0	5,247	20.6
– Cash clients	676	1.9	958	1.7	544	0.8	268	1.7	136	0.5
Placing and underwriting services income	7,849	22.0	12,894	22.7	28,826	44.2	6,278	39.4	12,713	49.9
Investment advisory services fee income	–	–	514	0.9	242	0.4	178	1.1	–	–
Handling and other fee income	589	1.7	932	1.7	1,512	2.3	345	2.2	369	1.5
Total	35,656	100	56,722	100	65,275	100	15,948	100	25,466	100

Commission and brokerage income derived from securities dealing

During the Track Record Period, we generated commission and brokerage income from the provision of brokerage services to our clients in respect of securities listed on the Stock Exchange as well as facilitating our clients' trading of securities listed on overseas stock exchanges, which accounted for approximately 46.7%, 54.9%, 32.7% and 27.5% of our total revenue for the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, respectively. The majority of commission and brokerage income generated from the provision of brokerage services during the Track Record Period was generated from trading of securities listed on the Stock Exchange. We charge brokerage commission for the execution of a trade based on a brokerage commission rate (being a percentage of the transaction amount of trade executed) agreed with our clients, subject to charge of a minimum commission which ranged from HK\$50 to HK\$100 per trade order. During the Track Record Period, the brokerage commission rate we charged for the execution of trade orders ranged from 0.075% to 0.25%, and the corresponding trading turnover (i.e. transaction amounts executed through us) amounted to approximately HK\$7.3 billion, HK\$12.7 billion, HK\$10.7 billion and HK\$3.8 billion respectively for the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, respectively. The brokerage commission rate we charge clients is generally determined on an arm's length basis based on clients' background and profile (such as their trading history including frequency, type and volume of trades, and length of client relationship with us etc.). The average commission rates we charged in connection with our brokerage services were approximately 0.21%, 0.21%, 0.19% and 0.18% for the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, respectively. The relatively lower average commission amounts generated for the year ended 31 March 2019 and four months ended 31 July 2019 were mainly due to increase in trading activities of certain clients who were offered lower commission rate based on our pricing policy.

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Interest income from margin financing services

During the Track Record Period, we generated interest income from the provision of margin financing services whereby we offer margin loans to our margin clients to facilitate their purchase of securities on a margin basis. We provide margin loans to our clients for the purchase of securities on the secondary market as well as provide IPO financing to clients for their subscription to shares offered under IPOs. For the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, our interest income generated from the provision of margin financing services to our margin clients amounted to approximately HK\$9.9 million, HK\$10.3 million, HK\$12.8 million and HK\$5.2 million, respectively, which accounted for approximately 27.7%, 18.1%, 19.6% and 20.6% of our total revenue during the respective periods. The interest rates we charged our clients from the provision of margin financing services ranged from Hong Kong Prime Rate +2% to 21.6% per annum. The interest rates we charge a client is determined with reference to, without limitation, the relevant client's trading record, creditworthiness and trading behaviour, as well as, the quality of securities pledged and/or other collateral given to secure the margin loan. We may charge higher interest rates to clients we consider as being of higher credit risk.

Interest income from cash clients

We execute trade orders for our cash clients notwithstanding a shortfall of funds in their client accounts, provided that the amount of shortfall do not exceed the credit limit designated in the relevant client accounts (unless the prior approval of our credit control committee is granted). Such outstanding amounts would be taken as a debt owed by the cash client to us up to the date of settlement, and where the cash client fail to settle the relevant trades within the T+2 period, we would charge default interest on the outstanding amount owed to us from that date.

During the Track Record Period, we generally charged a default interest rate of Hong Kong Prime Rate +7% per annum, and the amount of default interest income generated from cash clients amounted to approximately HK\$676,000, HK\$958,000, HK\$544,000 and HK\$136,000 for the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, respectively, which accounted for approximately 1.9%, 1.7%, 0.8% and 0.5% of our total revenue, respectively.

Placing and underwriting services income

During the Track Record Period, we acted as (i) bookrunner, lead manager and underwriter in relation to IPOs on the Stock Exchange; and (ii) placing agent in relation to placings of new securities of listing applicants and listed issuers on the Stock Exchange, in return for placing and underwriting services income.

For the year ended 31 March 2017, we acted as underwriter in respect of six IPOs of Main Board listing applicants (“**MB IPOs**”) and three IPOs of GEM listing applicants (“**GEM IPOs**”), sub-underwriter in respect of six MB IPOs and one placing project in respect of bonds issuance for an issuer listed on the Main Board. For the year ended 31 March 2018, we acted as underwriter in respect of eight MB IPOs and one GEM IPO, sub-underwriter in respect of two MB IPOs and two GEM IPOs, and three placing projects in respect of new shares issuance of companies listed on the Main Board. For the year ended 31 March 2019, we acted as underwriter for 15 MB IPOs and three GEM IPOs, and sub-underwriter for eight MB IPOs. For the four months ended 31 July 2019, we acted as underwriter for seven MB IPOs and sub-underwriter for five MB IPOs.

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Our commissions in respect of placing and underwriting engagements are typically (i) based on a pre-determined fixed fee; or (ii) based on a fee calculated with reference to a percentage of the total price of the shares underwritten or placed by us.

Components of remuneration forming our commissions may include, without limitation (i) underwriting commission which is typically shared among underwriters involved in any syndication; (ii) selling concession, which is calculated as a discount from the price of an offering in respect of placed or sold securities; (iii) a praecipium, which is typically paid to the lead manager in connection with management of the offering which is not shared among underwriters involved in any syndication; (iv) an incentive fee which is typically paid by the issuer to the lead manager on a discretionary basis upon completion of the offering, and shared among underwriters involved in the syndication at the discretion of the lead manager; and (v) such other fees or commissions as may be agreed with client.

The lead manager may be entitled to deduct, from the commissions payable to underwriters involved in syndication in respect of any offering, (i) the underwriters' share of costs and expenses incurred by the lead manager in connection with the offering which are not paid or reimbursed to the lead manager by the issuer; (ii) costs and expenses arising from stabilisation activities or other transactions effected pursuant thereto; or (iii) such other costs and expenses which the underwriters may agree to be liable for in respect of the syndication.

The following table summarises the effective placing and underwriting commission rates which were charged by us over the Track Record Period (including any underwriting commission, selling concession, praecipium or other fee (as applicable) charged by us, but without taking into account any discretionary incentive fee that may be paid to us or shared costs and expenses that may be incurred by us in respect of relevant engagements):

	Year ended 31 March			Four months ended 31 July 2019	Average commission per engagement over the Track Record Period
	2017	2018	2019		
Fixed fee engagements	HK\$20,000- HK\$860,000	HK\$40,000- HK\$1,500,000	HK\$60,000- HK\$2,650,000	HK\$100,000- HK\$360,000	HK\$554,182
Fixed rate engagements <i>(rate by of total price of shares underwritten/placed by us)</i>	1.0%-5.0%	0.4%-3.5%	0.92%-10.0%	1.7%-10.0%	2.78%

Depending on our role in the various placing and underwriting exercises, we collect commission either from the issuers, lead managers or immediate underwriters/placing agents (as applicable) of the relevant placing and underwriting exercises.

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During the Track Record Period, our revenue generated from the provision of placing and underwriting services amounted to approximately HK\$7.8 million, HK\$12.9 million, HK\$28.8 million and HK\$12.7 million for the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, respectively, which accounted for approximately 22.0%, 22.7%, 44.2% and 49.9% of our total revenue in the respective periods.

Investment advisory services fee income

We provide investment advisory services to our clients through our operating subsidiary, Sinomax Securities, a corporation which has been licensed with the SFC to carry out type 4 (advising on securities) regulated activity since 19 August 2016. We act as investment advisor to our clients and provide them with monthly research reports and investment consultancy services (whereby we may be required to meet with them to discuss investment-related matters upon request) in return for a service fee. We also provide investment advisory services incidental to our provision of securities trading services in respect of securities traded by our clients through us, which we provide free of charge.

For the years ended 31 March 2018 and 2019, our service fee income generated in connection with our provision of investment advisory services amounted to approximately HK\$514,000 and HK\$242,000 respectively, which accounted for approximately 0.9% and 0.4% of our total revenue for the respective periods. We did not generate any service fee income from the investment advisory business for the year ended 31 March 2017 as we only commenced the provision of investment consultancy services and issuance of research reports to clients from July 2017. For the four months ended 31 July 2019, there was no service fee generated due to the termination of investment advisory contracts with clients during the year ended 31 March 2019.

Handling and other fee income

We provided various other ancillary services related to our securities trading business including the provision of nominee services (to assist clients with the collection of share certificates or dividends), custodian services, scrip handling services and handling services for other corporate actions. For such services, we charge our clients a scrip fee, dividend collection fee, custodian fee and/or handling service fee (as applicable), which are recognised when the agreed services have been provided. For the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, the total income generated from such ancillary services amounted to approximately HK\$589,000, HK\$932,000, HK\$1.5 million and HK\$369,000, respectively, representing approximately 1.7%, 1.7%, 2.3% and 1.5% of our total revenue, respectively.

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SUMMARY SEGMENT RESULTS

We have four business segments, namely, the provision of: (i) brokerage services; (ii) margin financing services; (iii) placing and underwriting services; and (iv) investment advisory services.

The accounting policies of the operating segments are the same as our Group's accounting policies described in note 4 of the Accountants' Report contained in Appendix I to this prospectus. Segment profit represents the profit earned by each segment without allocation of other income, other gains and losses, certain staff costs, certain finance costs, depreciation, listing expenses, other expenses and certain other operating expenses. Those unallocated expenses relate primarily to office and corporate expenses that are not directly attributable to our operations of particular segments. No inter-segment revenues are charged among segments.

The following table sets forth our segment revenue, segment profit or loss and segment margin (calculated as the segment results divided by the segment revenue) for the periods indicated:

	For the year ended 31 March			For the four months ended 31 July	
	2017	2018	2019	2018	2019
	(unaudited)				
	(HK\$'000, except for percentages)				
Brokerage services					
Segment revenue	17,240	32,063	22,837	6,028	7,370
Segment profit	15,947	29,959	19,686	5,373	6,610
Segment margin (%)	92.5%	93.4%	86.2%	89.1%	89.7%
Margin financing services					
Segment revenue	10,567	11,251	13,370	3,464	5,383
Segment profit	10,567	11,250	13,118	3,461	4,947
Segment margin (%)	100%	100%	98.1%	99.9%	91.9%
Placing and underwriting services					
Segment revenue	7,849	12,894	28,826	6,278	12,713
Segment profit	6,707	8,310	24,264	4,275	11,426
Segment margin (%)	85.5%	64.4%	84.2%	68.1%	89.9%
Investment advisory services					
Segment revenue	–	514	242	178	–
Segment loss	(267)	(43)	(4)	(32)	–
Segment margin (%)	N/A	-8.4%	-1.7%	-18.0%	N/A

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Brokerage services

Segment revenue from our brokerage services comprised of commission and brokerage income as well as handling and other fee income for ancillary services related to our brokerage service. We incurred the following main expenses in connection with the provision of brokerage services: (i) commission expenses we paid to our staff dealers and AEs (in respect of Referred Accounts) as well as overseas brokers; (ii) remuneration of responsible officers, staff dealers and AEs who provide brokerage services; and (iii) CCASS settlement and brokerage trading expenses.

The segment profit from our provision of brokerage services were approximately HK\$15.9 million, HK\$30.0 million, HK\$19.7 million and HK\$6.6 million for the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, respectively. The fluctuation of the segment profit was mainly due to the fluctuation in the amount of revenue derived from commission and brokerage income generated from securities dealing of clients which were affected by, among others, investment sentiment and outlook under prevailing market conditions.

The segment margin from our provision of brokerage services were approximately 92.5%, 93.4%, 86.2% and 89.7% for the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, respectively. The fluctuation of the segment margin was primarily affected by the fluctuations in the amount of commission expenses paid to third-party brokers which is influenced by investment preference for trading in securities listed in overseas stock exchange.

Margin financing services

Segment revenue from our provision of margin financing services consisted of interest income from our margin clients and cash clients. The major expense we incurred for generating segment revenue in connection with our provision of margin financing services included financing charges and costs resulting from the utilisation of bank facilities available to us for funding margin loans we extend to our clients.

Segment profits of our margin financing services amounted to approximately HK\$10.6 million, HK\$11.3 million, HK\$13.1 million and HK\$4.9 million for the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, respectively. The growth in segment profits from our provision of margin financing services was mainly due to an increase in interest income derived from our margin clients as the demand for our margin financing services increased over the years.

The segment margin from our provision of margin financing services remained at a high level of approximately 100%, 100%, 98.1% and 91.9% for the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, respectively. The fluctuation of segment margin of our margin financing services was primarily due to the incurrence of interest expenses for bank borrowings for providing margin loans to clients. We did not incur any financial expenses from bank borrowings (for extending loans to clients) other than in the year ended 31 March 2019 and four months ended 31 July 2019.

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Placing and underwriting services

Segment revenue from our provision of placing and underwriting services consisted of placing and underwriting services income. In generating revenue from the provision of our placing and underwriting services, we incurred (i) commission expenses payable to staff of our equity capital markets department; (ii) salary payable to staff of our equity capital markets department; and (iii) impairment loss due to an account receivable of our placing and underwriting clients (which was subsequently reversed).

Segment profits from our provision of placing and underwriting services amounted to approximately HK\$6.7 million, HK\$8.3 million, HK\$24.3 million and HK\$11.4 million for the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, respectively. The growth in segment profits was mainly due to an increase in placing and underwriting services income. In particular, our segment revenue increased significantly in the year ended 31 March 2019 as we were engaged in more fund raising or placing projects (which were also generally more sizeable) in line with the activeness of the equity capital market during the relevant period.

The segment margin from our provision of placing and underwriting were approximately 85.5%, 64.4%, 84.2% and 89.9% for the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, respectively. The fluctuation in the segment margin was primarily affected by the amount of commission expenses we paid to our staff of our equity capital markets department.

Investment advisory services

Segment revenue from our investment advisory services consisted of investment advisory services fee income and the main expenses incurred for generating the relevant income were payment of salaries to the relevant staff.

We recorded a loss in connection with our investment advisory services which amounted to approximately HK\$267,000, HK\$43,000 and HK\$4,000 for the years ended 31 March 2017, 2018 and 2019, respectively. This was because the revenue derived from our provision of investment advisory services could not cover the salaries paid to the relevant staff. We did not generate any service fee income for the four months ended 31 July 2019 due to the termination of investment advisory contracts with clients for the year ended 31 March 2019 as we recorded a net loss from the performance of this segment.

Due to the loss in connection with our investment advisory services, we recorded negative segment margin of approximately -8.4% and -1.7% for the years ended 31 March 2018 and 2019, respectively. Since we did not generate revenue from our investment advisory services for the year ended 31 March 2017 and four months ended 31 July 2019, segment margin is not applicable for the relevant period.

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Other gains and losses

Our other gains and losses comprised of fair value gain or loss on held-for-trading investments, loss on written off of property and equipment and exchange loss. The following table sets out a breakdown of our other gains and losses during the Track Record Period:

	For the year ended 31 March			For the four months ended 31 July	
	2017	2018	2019	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Fair value gain/(loss) on held-for-trading investments	5	(114)	(91)	(35)	–
Loss on written off of property and equipment	(2)	–	–	–	–
Exchange loss	–	–	(81)	(2)	(87)
	<u>3</u>	<u>(114)</u>	<u>(172)</u>	<u>(37)</u>	<u>(87)</u>

We recorded other gains of approximately HK\$3,000 for the year ended 31 March 2017, while we recorded other losses of approximately HK\$114,000, HK\$172,000 and HK\$87,000 for the years ended 31 March 2018 and 2019 and four months ended 31 July 2019, respectively. Fair value gain or loss in respect of held-for-trading investments represents the gain/loss realised from change in value of our investment portfolio which mainly comprises of listed securities on the Stock Exchange. We recorded a fair value gain in respect held-for-trading investments in the amount of approximately HK\$5,000 for the year ended 31 March 2017 and recorded fair value loss in the amount of approximately HK\$114,000 and HK\$91,000 for the years ended 31 March 2018 and 2019, respectively, but did not incur similar loss for the four months ended 31 July 2019. We recorded a loss of approximately HK\$2,000 in connection with written off property and equipment for the year ended 31 March 2017, but did not incur similar losses in the years ended 31 March 2018 and 2019 and four months ended 31 July 2019. Exchange loss represents the loss incurred from translation of foreign currency in our ordinary and usual course of business for the facilitation of trading of products denominated in foreign currencies listed in markets. We recorded an exchange loss of approximately HK\$81,000 and HK\$87,000 for the year ended 31 March 2019 and four months ended 31 July 2019, respectively while no similar losses were incurred for the years ended 31 March 2017 and 2018.

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Other income

The table below sets forth a breakdown of our other income during the Track Record Period:

	For the year ended 31 March			For the four months ended 31 July	
	2017	2018	2019	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Bank interest income	3	3	550	72	238
Dividend income	31	24	26	4	–
Sundry income	455	91	67	49	17
	<u>489</u>	<u>118</u>	<u>643</u>	<u>125</u>	<u>255</u>

Other income amounted to approximately HK\$489,000, HK\$118,000, HK\$643,000 and HK\$255,000 for the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, respectively, which mainly consists of (i) interest income from bank deposits, (ii) dividend income received from held-for-trading investments, and (iii) sundry income.

Staff costs

The following table shows the breakdown of our staff costs during the Track Record Period:

	For the year ended 31 March			For the four months ended 31 July	
	2017	2018	2019	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Directors' remuneration					
– fees	–	–	–	–	–
– salaries, discretionary bonus and other benefit	492	612	881	180	526
– contributions to the retirement benefit scheme	19	18	32	6	12
Salaries, discretionary bonus and other benefit	2,531	3,898	4,193	1,542	1,531
Contributions to the retirement benefit scheme	<u>144</u>	<u>169</u>	<u>162</u>	<u>59</u>	<u>57</u>
	<u>3,186</u>	<u>4,697</u>	<u>5,268</u>	<u>1,787</u>	<u>2,126</u>

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Our staff costs represent (i) directors' remuneration, (ii) salaries, (iii) discretionary bonus and other benefit and contributions to defined contribution retirement benefit scheme paid and payable to directors and staff of our Group. Our staff costs amounted to approximately HK\$3.2 million, HK\$4.7 million, HK\$5.3 million and HK\$2.1 million for the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, respectively.

Finance costs

Finance costs represent interest paid on bank loans and bank overdrafts and interest paid on lease liabilities incurred as the Group has elected to early apply new accounting standard HKFRS 16 "Leases" (notwithstanding that the accounting standard should theoretically only apply to reporting periods beginning on or after 1 January 2019). For the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, we recorded finance costs of approximately HK\$79,000, HK\$204,000, HK\$372,000 and HK\$457,000, respectively.

Impairment loss, net of reversal

We recognised an impairment loss relating to our accounts receivable which arose from our placing and underwriting business of approximately HK\$365,000 for the year ended 31 March 2018, due to an account receivable from client which was overdue for more than one year. After the client repaid the impaired debt, the impairment loss was reversed in the year ended 31 March 2019.

Commission expenses

The following table sets forth commission expenses by nature during the Track Record Period:

	For the year ended 31 March			For the four months ended 31 July	
	2017	2018	2019	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Commission expenses for placing and underwriting services	917	3,854	4,567	1,883	1,167
Commission expenses for third-party brokers	52	373	1,181	135	40
Commission expenses for staff dealers and AEs	330	400	246	74	83
	<u>1,299</u>	<u>4,627</u>	<u>5,994</u>	<u>2,092</u>	<u>1,290</u>

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We recorded commission expenses which amounted to approximately HK\$1.3 million, HK\$4.6 million, HK\$6.0 million and HK\$1.3 million for the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, respectively. Our commission expenses mainly comprised (i) commission expenses in connection with placing and underwriting services, which included the commission payable to the executive director of the equity capital markets department, representing 30% of commission income received from the projects which were introduced by them; (ii) commission expenses paid to third-party brokers, which included (a) brokerage commission paid to the brokers who facilitates execution of trades by clients in respect of securities listed on overseas stock exchanges and (b) brokerage fees paid to bookrunners or lead managers in connection with subscriptions or acquisitions of our clients of securities in projects in which we acted as underwriter; and (iii) commission expenses paid to our staff dealers and AEs in respect of trades executed through Referred Accounts.

We recorded commission expenses in connection with our placing and underwriting services which amounted to approximately HK\$917,000, HK\$3.9 million, HK\$4.6 million and HK\$1.2 million for the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, respectively. The commission expenses in connection with our for placing and underwriting services solely included the commission payable to staff in our equity capital markets department. For the projects which were introduced by the executive director of our equity capital markets department, 30% of the commission received from those projects would be distributed to him as commission. The aggregate commission received by us from the projects which were introduced by the executive director in our equity capital markets department accounted for approximately 34.4%, 94.9%, 51.5% and 30.6% of our total revenue derived from our placing and underwriting services for the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, respectively.

Our commission expenses paid to third-party brokers amounted to approximately HK\$52,000, HK\$373,000, HK\$1.2 million and HK\$40,000 for the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, respectively. Our commission expenses paid to third-party brokers included (i) the brokerage fees payable to the brokers who facilitated by such brokers in connection with trading of securities listed on overseas markets; and (ii) the brokerage fees payable to the bookrunners or lead managers of the projects under our placing and underwriting services. For trades facilitated through us in respect of trading of securities listed on overseas exchanges, we would be liable to pay third-party brokers brokerage fees based on the pricing policy of such brokers. The brokerage fees payable to third-party brokers for executing trades of our client on overseas stock exchanges amounted to approximately HK\$500, HK\$6,000, HK\$25,000 and HK\$5,000 for the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, respectively. For brokerage fees payable to bookrunners or lead managers under our placing and underwriting services, it was generally charged at 1% of the subscription price of the relevant securities (which correspond to the 1% brokerage which lead manager or bookrunners are charged for IPO transactions pursuant to the requirements of the Listing Rules). This brokerage fee is charged on a case-by-case basis. During the Track Record Period, we recorded brokerage fee paid to the bookrunners or lead managers of approximately HK\$52,000, HK\$366,000, HK\$1.2 million and HK\$35,000 for the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, respectively.

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For our brokerage services, we charge our clients brokerage commission based on a commission rate of the transaction value of the relevant trades executed through us, subject to a minimum commission charge ranging from HK\$50 to HK\$100. The commission rate we charged for brokerage services during the Track Record Period varies for each order and client, and which is determined with reference to the client's transaction history, financial position and trading pattern including the type of products traded and trading volume and frequency. We retain a commission amount ranging from 0.075% to 0.125% of the total commission received from Referred Accounts and distribute the remaining portion to the responsible staff dealers and AEs as commission. Commission paid to staff dealers and AEs were amounted to approximately HK\$330,000, HK\$400,000, HK\$246,000 and HK\$83,000 for the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, respectively.

Listing expenses

Listing expenses represent the expenses incurred in connection with the Listing. For the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, we recorded listing expenses of approximately HK\$96,000, HK\$1.9 million, HK\$1.9 million and HK\$5.1 million, respectively.

Other expenses

We recorded other expenses in the amount of approximately HK\$8.8 million and HK\$1.3 million for the years ended 31 March 2017 and 2019, respectively. Other expenses consisted of professional fees incurred in connection with preparatory work undertaken in respect of our earlier attempt to apply for a listing on GEM in 2017 and Main Board in 2018.

Depreciation of property and equipment

For the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, our deprecation of property and equipment amounted to approximately HK\$1.7 million, HK\$1.8 million, HK\$1.8 million and HK\$588,000, respectively, which accounted for approximately 4.7%, 3.1%, 2.7% and 2.3% of our total revenue in the respective periods.

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Other operating expenses

The following table is a breakdown of our other operating expenses during the Track Record Period:

	For the year ended 31 March						For the four months ended 31 July			
	2017		2018		2019		2018		2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
							(unaudited)			
Administrative expenses	154	5.2	237	7.2	151	3.8	51	3.9	59	4.2
Audit fee	381	12.8	255	7.8	580	14.8	194	14.7	254	18.1
Bank charges	17	0.6	21	0.6	22	0.6	14	1.1	24	1.7
CCASS settlement and brokerage										
trading expenses	503	16.9	803	24.5	1,021	26.0	279	21.2	325	23.2
Information services expenses	1,163	39.1	1,287	39.2	1,307	33.2	357	27.1	462	32.9
Insurance premium	9	0.3	11	0.3	14	0.4	2	0.2	2	0.1
Miscellaneous expenses	98	3.3	101	3.1	40	1.0	12	0.9	18	1.3
Operating expenses arising from leased										
office premises	373	12.5	291	8.9	289	7.3	113	8.5	120	8.5
Professional charges	235	7.9	236	7.2	419	10.7	271	20.6	127	9.1
Travelling expenses	39	1.3	41	1.2	90	2.3	24	1.8	12	0.9
	<u>2,972</u>	<u>100</u>	<u>3,283</u>	<u>100</u>	<u>3,933</u>	<u>100</u>	<u>1,317</u>	<u>100</u>	<u>1,403</u>	<u>100</u>

Our other operating expenses amounted to approximately HK\$3.0 million, HK\$3.3 million, HK\$3.9 million and HK\$1.4 million for the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, respectively, and accounted for approximately 8.3%, 5.8%, 6.0% and 5.5% of our total revenue during the respective periods. The key operating expenses over the Track Record Period were (i) expenses for information services (including trading system and other equipment services); and (ii) CCASS settlement and brokerage trading expenses (including HKSCC settlement charge, CCASS charges and custody fee, trading right subscription fee, trading tariff, charges of the Stock Exchange and scrip fees).

Taxation

Our Company was incorporated in the Cayman Islands and one of the members of our Group was incorporated in the BVI. Pursuant to the rules and regulations of the Cayman Islands and the BVI, we were not subject to any income tax in the Cayman Islands or the BVI. However, we were subject to Hong Kong profits tax on entity basis on profit arising in or derived from Hong Kong. Provision for Hong Kong profits tax has been calculated at the applicable rates of 16.5% for the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019 on the estimated assessable profits of our companies operating in Hong Kong. For the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, our income tax expense was approximately HK\$4.4 million, HK\$6.9 million, HK\$7.8 million and HK\$3.2 million respectively.

There had been no material disputes or unresolved tax issues between the relevant tax authorities and us during the Track Record Period.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS***Year ended 31 March 2018 as compared to the year ended 31 March 2017*****Revenue**

Our overall revenue increased by approximately HK\$21.1 million or 59.1% from approximately HK\$35.7 million for the year ended 31 March 2017 to approximately HK\$56.7 million for the year ended 31 March 2018. The increase was mainly due to (i) substantial increase in brokerage commission income from our provision of securities dealing services; and (ii) increase in commission income from our provision of placing and underwriting services.

Our brokerage commission income from the provision of securities brokerage services increased by approximately HK\$14.5 million or 87.0% from approximately HK\$16.7 million for the year ended 31 March 2017 to approximately HK\$31.1 million for the year ended 31 March 2018. The increase was mainly due to an increase in trading volume recorded in client accounts. The aggregate trading turnover in client accounts increased by approximately HK\$5.4 billion or 74.0% from approximately HK\$7.3 billion for the year ended 31 March 2017 to approximately HK\$12.7 billion for the year ended 31 March 2018, mainly due to positive prospects of the Hong Kong stock market. According to the Ipsos Report, the HSI increased from approximately 22,000 points in 2016 to approximately 29,919 points in 2017. Besides, according to market statistics from the HKEX, total trading turnover (in value) of securities traded on the Stock Exchange increased by approximately HK\$9,293.2 billion or 55.6% from approximately HK\$16,717.1 billion for the year ended 31 March 2017 to approximately HK\$26,010.3 billion for the year ended 31 March 2018.

Our total interest income generated from margin clients and cash clients increased by approximately HK\$684,000 or 6.5% from approximately HK\$10.6 million for the year ended 31 March 2017 to approximately HK\$11.3 million for the year ended 31 March 2018. Our interest income from margin clients increased by approximately HK\$402,000 or 4.1% from approximately HK\$9.9 million for the year ended 31 March 2017 to approximately HK\$10.3 million for the year ended 31 March 2018, mainly due to an increase in average monthly margin balances granted to our clients which increased by approximately HK\$23.4 million (from approximately HK\$71.0 million for the year ended 31 March 2017 to approximately HK\$94.4 million for the year ended 31 March 2018).

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Our interest income from cash clients increased by approximately HK\$282,000 or 41.7% from approximately HK\$676,000 for the year ended 31 March 2017 to approximately HK\$958,000 for the year ended 31 March 2018. Such interest income were derived from default of repayment of amounts owed to us by clients who executed a trade through us but failed to settle the trade within the T+2 period for settlement (as prescribed by the HKSCC). The increase in interest income from cash clients was primarily due to an increase in the amount of late settlement of trades by our cash clients.

Our placing and underwriting services income increased by approximately HK\$5.0 million or 64.3% from approximately HK\$7.8 million for the year ended 31 March 2017 to approximately HK\$12.9 million for the year ended 31 March 2018. Such increase was attributable to an increase in average size of transactions. The amount of commission income are derived for carrying out placing and underwriting engagements ranged from HK\$5,400 to approximately HK\$2.3 million for the year ended 31 March 2017 (average commission income of approximately HK\$491,000 per engagement) and ranged from approximately HK\$40,000 to HK\$2.0 million for the year ended 31 March 2018 (average commission income of approximately HK\$812,000 per engagement).

As we only commenced providing investment advisory services from July 2017, we did not generate any income for the year ended 31 March 2017. For the year ended 31 March 2018, we entered into two contracts for the provision of investment advisory services pursuant to which we provided monthly research reports investment consultancy services (whereby we met with clients from time to time to discuss investment-related matters upon request). We generated approximately HK\$514,000 for the year ended 31 March 2018 from the provision of such services.

Our handling and other fee income represents fees charged to clients for services ancillary to our securities trading services (such as deposit/withdrawal of physical shares, bonus shares collection, cash dividend collection, scrip dividend fee, settlement fee, custodian fee and fees for handling other corporate actions). This amounted to approximately HK\$589,000 for the year ended 31 March 2017 and approximately HK\$932,000 for the year ended 31 March 2018. As the trading turnover in client accounts increased from the year ended 31 March 2017 to the year ended 31 March 2018, our scrip fee income and CCASS settlement fee income also increased.

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Segment results

Brokerage services

The segment profit from our provision of brokerage services increased by approximately HK\$14.0 million or 87.9% from approximately HK\$15.9 million for the year ended 31 March 2017 to approximately HK\$30.0 million for the year ended 31 March 2018. Such increase was mainly due to an increase in our revenue derived from executing and facilitating the execution of trade orders of clients. The aggregate trading turnover in client accounts increased by approximately HK\$5.4 billion or 74.0% from approximately HK\$7.3 billion for the year ended 31 March 2017 to approximately HK\$12.7 billion for the year ended 31 March 2018, mainly due to positive prospects of the Hong Kong stock market. According to market statistics from the HKEX, total trading turnover (in value) of securities traded on the Stock Exchange increased by approximately HK\$9,293.2 billion or 55.6% from approximately HK\$16,717.1 billion for the year ended 31 March 2017 to approximately HK\$26,010.3 billion for the year ended 31 March 2018. For details please refer to the section headed “Financial information – Period-to-period comparison of results of operation – Revenue” in this prospectus.

Our segment margin of our brokerage services for the years ended 31 March 2017 and 2018 were approximately 92.5% and 93.4% respectively. The segment margin of our brokerage services for the year ended 31 March 2018 remained stable as compared to that for the year ended 31 March 2017. This was because the increases in aggregate commission expenses payable to staff dealers and AEs and third-party brokers were in line with an increase in trading turnover during the relevant period. The aggregate commission expenses for staff dealers and AEs and third-party brokers increased by approximately HK\$390,000 or 101.8% from approximately HK\$383,000 for the year ended 31 March 2017 to approximately HK\$773,000 for the year ended 31 March 2018.

Margin financing services

Our segment profit from our provision of margin financing services increased by approximately HK\$684,000 or 6.5% from approximately HK\$10.6 million for the year ended 31 March 2017 to approximately HK\$11.3 million for the year ended 31 March 2018. The increase was primarily due to an increase in interest income from the margin loans we made to our margin clients. There was an increase in average monthly margin balances granted to our clients by approximately HK\$23.4 million from approximately HK\$71.0 million for the year ended 31 March 2017 to approximately HK\$94.4 million for the year ended 31 March 2018. For details please refer to the section headed “Financial information – Period-to-period comparison of results of operation – Revenue” in this prospectus.

We recorded segment margin of 100% and approximately 100% our margin financing services for the years ended 31 March 2017 and 2018, respectively. The segment incurred interest expenses of HK\$1,000 for the year ended 31 March 2018 due to bank overdraft.

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Placing and underwriting services

Our segment profit of our placing and underwriting services increased by approximately HK\$1.6 million or 23.9% from approximately HK\$6.7 million for the year ended 31 March 2017 to approximately HK\$8.3 million for the year ended 31 March 2018. The increase was primarily due to an increase in revenue derived from commission income from our placing and underwriting services. There was an increase in average size of placing and underwriting transactions as the amount of commission income are derived for carrying out placing and underwriting engagements ranged from HK\$5,400 to approximately HK\$2.3 million for the year ended 31 March 2017 (average commission income of approximately HK\$491,000 per engagement) and ranged from approximately HK\$40,000 to HK\$2.0 million for the year ended 31 March 2018 (average commission income of approximately HK\$812,000 per engagement). For details, please refer to the section headed “Financial information – Period-to-period comparison of results of operation – Revenue” in this prospectus.

The fluctuation in the segment margin of our placing and underwriting services was primarily due to the fluctuation in commission expenses payable to staff of our equity capital markets department. For projects introduced to us by the executive director of our equity capital markets department, 30% of commission received from those projects would be payable to him as commission. The segment margin of our placing and underwriting business decreased by approximately 21.0% from approximately 85.5% for the year ended 31 March 2017 to approximately 64.4% for the year ended 31 March 2018. Such decrease was primarily due to an increase in commission expenses paid to the executive director of our equity capital markets department by approximately HK\$2.9 million or 320.3% from approximately HK\$917,000 for the year ended 31 March 2017 to approximately HK\$3.9 million for the year ended 31 March 2018. Such increase was primarily due to an increase in aggregate commission income derived from the projects introduced by the executive director of our equity capital markets department vis-a-vis our overall revenue in the business segment, which increased from approximately 34.4% for the year ended 31 March 2017 to approximately 94.9% for the year ended 31 March 2018.

Investment advisory services

We recorded losses in the amount of approximately HK\$267,000 and HK\$43,000 from our provision of investment advisory services for the years ended 31 March 2017 and 2018, respectively. We generated a loss in the respective periods principally due to the incurrence of staff costs. We had not commenced the provision of investment consultancy services or the publication of research reports in the year ended 31 March 2017, and the revenue generated from the provision of relevant services did not cover the amount of related staff costs incurred in the year ended 31 March 2018.

Segment margin could not be calculated for the year ended 31 March 2017 as we did not generate any revenue in the period. The segment margin of our investment advisory services was approximately negative 8.4% for the year ended 31 March 2018 due to the incurrence of loss in the period.

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Other gains and losses

We recorded other gains of approximately HK\$3,000 for the year ended 31 March 2017, while we recorded other losses of approximately HK\$114,000 for the year ended 31 March 2018. Our other losses was attributable to a fair value loss in respect of our held-for-trading investments in the amount of approximately HK\$114,000 during the year, comprising a loss on certain listed securities that were disposed of approximately HK\$40,000, and loss on certain listed securities held in the amounts of approximately HK\$74,000 due to a drop in market price of the relevant securities as at 31 March 2018. Please refer to sub-section headed “Held-for-trading investments” in this section of this prospectus for further details.

Other income

Our other income mainly comprised bank interest income, dividend income received from held-for-trading investments, and other income received from clients. Our other income decreased from approximately HK\$489,000 for the year ended 31 March 2017 to approximately HK\$118,000 for the year ended 31 March 2018, representing a decrease of approximately 75.9%. Such decrease was mainly attributable to a decrease in sundry income from HK\$455,000 for the year ended 31 March 2017 to approximately HK\$91,000 for the year ended 31 March 2018, mainly due to the non-recurring nature of a service fee of HK\$400,000 which we charged a client for the provision of marketing and promotional services in connection with its proposed listing on the Stock Exchange in the year ended 31 March 2017.

Staff costs

Our staff costs increased from approximately HK\$3.2 million for the year ended 31 March 2017 to approximately HK\$4.7 million for the year ended 31 March 2018, representing an increase of approximately 47.4%. The increase was mainly due to salaries paid to the executive director of our equity capital markets department who had been engaged since 15 August 2016.

Finance costs

Our finance costs increased by approximately HK\$125,000 or 158.2% from approximately HK\$79,000 for the year ended 31 March 2017 to approximately HK\$204,000 for the year ended 31 March 2018. Our finance costs for the year ended 31 March 2017 solely consisted of interest on lease liabilities as we elected to early apply accounting standard – HKFRS16 “Leases” (notwithstanding that the accounting standard which should only theoretically apply to reporting periods beginning on or after 1 January 2019), while our finance costs for the year ended 31 March 2018 consisted of interest paid to bank for bank overdraft in the amount of approximately HK\$1,000 and interest on lease liabilities in the amount of approximately HK\$203,000.

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Impairment loss

We recorded impairment loss of approximately HK\$365,000 for the year ended 31 March 2018, primarily due to the written off of an accounts receivable from our placing and underwriting business which was overdue for more than one year (such impairment loss was subsequently reversed due to repayment of relevant debt in the year ended 31 March 2019).

Commission expenses

Our commission expenses increased by approximately HK\$3.3 million or 256.2% from approximately HK\$1.3 million for the year ended 31 March 2017 to approximately HK\$4.6 million for the year ended 31 March 2018 primarily due to an increase in commission paid to the executive director of our equity capital markets department.

Other expenses

We recorded other expenses in the amount of approximately HK\$8.8 million in the year ended 31 March 2017 which was attributable to fees and costs incurred in connection with preparation work undertaken in relation to our proposed application for listing on GEM during that year but which did not proceed. We did not record any other expenses in the year ended 31 March 2018.

Depreciation of property and equipment

Our property and equipment recorded depreciation in the amount of approximately HK\$1.7 million and HK\$1.8 million for the years ended 31 March 2017 and 2018 respectively, representing approximately 4.7% and 3.1% of our total revenue in the respective years.

Other operating expenses

Our operating expenses increased by approximately HK\$311,000 or 10.5% from approximately HK\$3.0 million for the year ended 31 March 2017 to approximately HK\$3.3 million for the year ended 31 March 2018. The increase was mainly attributable to an increase in CCASS charges and custody fee which increased by approximately HK\$225,000 or 69.0% from approximately HK\$326,000 for the year ended 31 March 2017 to approximately HK\$551,000 for the year ended 31 March 2018 due to an increase in trading turnover of our clients account.

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Taxation

Our tax expenses increased by approximately HK\$2.5 million or 56.7% from approximately HK\$4.4 million for the year ended 31 March 2017 to approximately HK\$6.9 million for the year ended 31 March 2018, mainly due to a significant increase in profit before tax, primarily attributable to the substantial increase in brokerage commission income from our provision of securities brokerage services and commission income from our provision of placing and underwriting services. Our effective tax rate amounted to 24.3% and 17.2% for the years ended 31 March 2017 and 2018, respectively. The effective tax rate for the year ended 31 March 2017 was materially higher than 16.5%, the applicable tax rate in Hong Kong, mainly due to the non-deductible nature of the one-off expenses that we incurred in relation to our earlier proposed application for listing on GEM during the year ended 31 March 2017.

Net profit for the year

Our net profit for the year increased by approximately HK\$19.4 million or 142.3% from approximately HK\$13.6 million for the year ended 31 March 2017 to approximately HK\$33.0 million for the year ended 31 March 2018, as a result of the cumulative effects of the factors described above.

Year ended 31 March 2019 as compared to year ended 31 March 2018

Revenue

Our revenue increased by approximately HK\$8.6 million or 15.1% from approximately HK\$56.7 million for the year ended 31 March 2018 to approximately HK\$65.3 million for the year ended 31 March 2019, mainly due to the significant increase in placing and underwriting services income.

Our brokerage commission income from the provision of brokerage services decreased by approximately HK\$9.8 million or 31.5%, from approximately HK\$31.1 million for the year ended 31 March 2018 to approximately HK\$21.3 million for the year ended 31 March 2019. The decrease was primarily due to a decrease in trading turnover recorded in client accounts in the amount of approximately HK\$2.0 billion or 15.7% from approximately HK\$12.7 billion for the year ended 31 March 2018 to approximately HK\$10.7 billion for the year ended 31 March 2019. The decrease in trading turnover in clients account was mainly due to the downturn of the Hong Kong stock market. According to the Ipsos Report, the HSI decreased from approximately 29,919 points in 2017 to approximately 25,845 points in 2018. Besides, according to market statistics from the HKEX, the total trading turnover (in value) in respect of securities listed on the Stock Exchange decreased by approximately HK\$2,434.1 billion from approximately HK\$26,010.3 billion for the year ended 31 March 2018 to approximately HK\$23,576.2 billion for the year ended 31 March 2019.

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Our interest income from our margin clients and cash clients increased by approximately HK\$2.1 million or 18.8% from approximately HK\$11.3 million for the year ended 31 March 2018 to approximately HK\$13.4 million for the year ended 31 March 2019. Our interest income from margin clients increased by approximately HK\$2.5 million or 24.6% from approximately HK\$10.3 million for the year ended 31 March 2018 to approximately HK\$12.8 million for the year ended 31 March 2019. Such increase was primarily due to the increase in average monthly margin balance granted to our clients in the amount of approximately HK\$46.0 million or 48.7%, from approximately HK\$94.4 million for the year ended 31 March 2018 to approximately HK\$140.4 million for the year ended 31 March 2019. We also increased our margin book during the year ended 31 March 2019 by utilising our bank facilities as well as internal resources derived from our operations.

Our interest income from cash clients decreased by approximately HK\$414,000 or 43.2% from approximately HK\$958,000 for the year ended 31 March 2018 to approximately HK\$544,000 for the year ended 31 March 2019, mainly due to a decrease in the amount of delayed settlement of trades by our cash clients.

Our placing and underwriting services income significantly increased by approximately HK\$15.9 million or 123.6% from approximately HK\$12.9 million for the year ended 31 March 2018 to approximately HK\$28.8 million for the year ended 31 March 2019. Such significant increase was primarily attributable to an increase in number in respect of fundraising or placing exercises (which were generally more sizable) from 16 for the year ended 31 March 2018 to 26 for the year ended 31 March 2019. The amount of commission income we derived from carrying out placing and underwriting engagements ranged from HK\$40,000 to approximately HK\$2.0 million for the year ended 31 March 2018 (average commission income of approximately HK\$812,000 per engagement), and ranged from approximately HK\$60,000 to approximately HK\$8.6 million for the year ended 31 March 2019 (average commission income of approximately HK\$1,116,000 per engagement).

Our investment advisory services fee income decreased by approximately HK\$272,000 from approximately HK\$514,000 for the year ended 31 March 2018 to approximately HK\$242,000 for the year ended 31 March 2019. Such decrease was mainly due to the termination of investment advisory contracts with clients during the year ended 31 March 2019 as we recorded a net loss from the performance of the segment.

Our handling and other fee income represents fees charged to clients for services ancillary to our securities trading services (such as deposit or withdrawal of physical shares, bonus shares collection, cash dividend collection, scrip dividend fee, settlement fee, custodian fee, and fee for handling other corporate actions). This amounted to approximately HK\$932,000 for the year ended 31 March 2018 and approximately HK\$1.5 million for the year ended 31 March 2019. The increase was mainly due to increase in custodian fee income and handling fee income due to more clients' deposits or withdrawal of physical shares.

FINANCIAL INFORMATION

Segment results

Brokerage services

Our segment profit from the provision of our brokerage services decreased by approximately HK\$10.3 million or 34.3% from approximately HK\$30.0 million for the year ended 31 March 2018 to approximately HK\$19.7 million for the year ended 31 March 2019. Such decrease was primarily due to decrease in our revenue derived from executing and facilitating the execution of trade orders of clients. There was a decrease in trading turnover recorded in client accounts in the amount of approximately HK\$2.0 billion or 15.7% from approximately HK\$12.7 billion for the year ended 31 March 2018 to approximately HK\$10.7 billion for the year ended 31 March 2019 which was mainly due to the downturn of the Hong Kong stock market. According to market statistics from the HKEX, the total trading turnover (in value) in respect of securities listed on the Stock Exchange decreased by approximately HK\$2,434.1 billion from approximately HK\$26,010.3 billion for the year ended 31 March 2018 to approximately HK\$23,576.2 billion for the year ended 31 March 2019. For details please refer to the section headed “Financial information – Period-to-period comparison of results of operation – Revenue” in this prospectus.

The segment margin of our brokerage services decreased by approximately 7.2% from approximately 93.4% for the year ended 31 March 2018 to approximately 86.2% for the year ended 31 March 2019. Such decrease was primarily due to an increase in amount of commissions paid to third-party brokers which increased by approximately HK\$808,000 or 216.6% from approximately HK\$373,000 for the year ended 31 March 2018 to approximately HK\$1.2 million for the year ended 31 March 2019 primarily due to the higher amount of brokerage fee paid to the bookrunners or lead managers in connection with clients’ subscriptions or acquisitions of securities in respect of projects under our placing and underwriting business.

Margin financing services

The segment profit from the provision of margin financing services increased by approximately HK\$1.9 million or 16.6% from approximately HK\$11.3 million for the year ended 31 March 2018 to approximately HK\$13.1 million for the year ended 31 March 2019 primarily due to an increase in interest income derived from margin loans we granted to our margin clients. There was an increase in average monthly margin balance granted to our clients in the amount of approximately HK\$46.0 million or 48.7%, from approximately HK\$94.4 million for the year ended 31 March 2018 to approximately HK\$140.4 million for the year ended 31 March 2019. For details, please refer to the section headed “Financial information – Period-to-period comparison of results of operation – Revenue” in this prospectus.

The segment margin of our margin financing services decreased by approximately 1.9% from approximately 100.0% for the year ended 31 March 2018 to approximately 98.1% for the year ended 31 March 2019, primarily due to interest expenses (in the amount of approximately HK\$252,000 paid to bank incurred from the draw down of bank facilities in the amount of HK\$30 million) during the year ended 31 March 2019 for fulfilling demand from our clients for margin loans.

FINANCIAL INFORMATION

Placing and underwriting services

The segment profit from the provision of placing and underwriting services increased by approximately HK\$16.0 million or 192.0% from approximately HK\$8.3 million for the year ended 31 March 2018 to approximately HK\$24.3 million for the year ended 31 March 2019. Such increase was primarily due to an increase in revenue derived from commission income from our placing and underwriting services. There was an increase in number in respect of fundraising or placing exercises (which were generally more sizable) from 16 for the year ended 31 March 2018 to 26 for the year ended 31 March 2019. In addition, the average size of placing and underwriting transactions was increased as the amount of commission income we derived from carrying out placing and underwriting engagements ranged from HK\$40,000 to approximately HK\$2.0 million for the year ended 31 March 2018 (average commission income of approximately HK\$812,000 per engagement), and ranged from approximately HK\$60,000 to approximately HK\$8.6 million for the year ended 31 March 2019 (average commission income of approximately HK\$1,116,000 per engagement). For details, please refer to the section headed “Financial information – Period-to-period comparison of results of operation – Revenue” in this prospectus.

The segment margin from the provision of placing and underwriting services increased by approximately 19.8% from approximately 64.4% for the year ended 31 March 2018 to approximately 84.2% for the year ended 31 March 2019. Such increase was attributable to the fact that the increment in segment revenue derived from our placing and underwriting services (which increased by approximately 123.6%) was significantly higher than the increment in related expenses, primarily commission expenses paid to the executive director of our equity capital markets department (which increased by approximately 18.5%) in the year ended 31 March 2019. The significantly higher percentage increase of segment revenue was primarily because the percentage of aggregate commission income received from the projects introduced by the executive director against the total segment revenue decreased from approximately 94.9% for the year ended 31 March 2018 to approximately 51.5% for the year ended 31 March 2019.

Investment advisory services

We recorded a loss of approximately HK\$43,000 and HK\$4,000 from our provision of investment advisory business for the years ended 31 March 2018 and 2019, respectively. Such loss in the respective years were primarily due to revenues recognised from the provision of relevant services were insufficient to cover associated staff costs.

The segment margin of our investment advisory services for the years ended 31 March 2018 and 2019 were approximately negative 8.4% and negative 1.7% respectively, due to incurrence of losses in segment results in the respective periods.

FINANCIAL INFORMATION

Other gains and losses

We recorded other losses of approximately HK\$114,000 for the year ended 31 March 2018, while we recorded other losses of approximately HK\$172,000 for the year ended 31 March 2019. Our other losses for the year ended 31 March 2018 was solely due to a fair value loss recognised in respect of held-for-trading investments, while our other losses for the year ended 31 March 2019 was due to (i) loss suffered from disposal of held-for-trading investments; and (ii) exchange loss incurred from the exchange of foreign currency in the ordinary course of our brokerage business.

Other income

Our other income mainly comprised bank interest income, dividend income received from held-for-trading investments, and other income received from clients. Our other income increased from approximately HK\$118,000 for the year ended 31 March 2018 to approximately HK\$643,000 for the year ended 31 March 2019, representing an increase of approximately 444.9%. Such increase was mainly due to increase in bank interest income from approximately HK\$3,000 for the year ended 31 March 2018 to approximately HK\$550,000 for the year ended 31 March 2019, which resulted from the treasury management of cash in our bank since the appointment of our new chief financial officer in January 2018.

Staff costs

Our staff costs increased from approximately HK\$4.7 million for the year ended 31 March 2018 to approximately HK\$5.3 million for the year ended 31 March 2019, representing an increase of approximately 12.2%. The increase was primarily due to the appointment of our new chief financial officer in January 2018.

Finance costs

Our finance costs increased by approximately HK\$168,000 or 82.4% from approximately HK\$204,000 for the year ended 31 March 2018 to approximately HK\$372,000 for the year ended 31 March 2019, primarily due to increased interest payable on bank borrowings due to utilisation of new bank facilities in the year ended 31 March 2019, while we had no bank borrowing in previous years.

Impairment loss, net of reversal

For the year ended 31 March 2019, the impairment loss in the amount of approximately HK\$365,000 recognised in the year ended 31 March 2018 was reversed, primarily due to the repayment of impaired debt which had resulted from an overdue account receivable from our placing and underwriting business (which was written off for the year ended 31 March 2018).

FINANCIAL INFORMATION

Commission expenses

Our commission expenses increased by approximately HK\$1.4 million or 29.5% from approximately HK\$4.6 million for the year ended 31 March 2018 to approximately HK\$6.0 million for the year ended 31 March 2019, mainly attributable to (i) an increase in commission expenses paid to the executive director of our equity capital markets department for introduction of placing and underwriting projects to us; and (ii) brokerage commission paid to bookrunners or lead managers in connection with clients' subscriptions or acquisitions of securities in respect of projects under our placing and underwriting business.

Other expenses

We recorded other expenses in the amount of approximately HK\$1.3 million for the year ended 31 March 2019 which related to fees incurred in connection with undertaken in relation to our earlier attempt of proposed application for a listing on the Main Board in 2018.

Depreciation of property and equipment

Our property and equipment recorded depreciation in the amount of approximately HK\$1.8 million in the years ended 31 March 2018 and 2019 respectively.

Other operating expenses

Our operating expenses increased by approximately HK\$650,000 or 19.8% from approximately HK\$3.3 million for the year ended 31 March 2018 to approximately HK\$3.9 million for the year ended 31 March 2019, mainly due to an increase in audit fee charged by our reporting accountants and an increase in legal fees.

Taxation

Our tax expenses increased by approximately HK\$1.0 million or 13.9% from approximately HK\$6.9 million for the year ended 31 March 2018 to approximately HK\$7.8 million for the year ended 31 March 2019, as a result of an increase in profit before tax, primarily attributable to a substantial increase in interest income from margin clients and commission income from our provision of placing and underwriting services. Our effective tax rate amounted to approximately 17.2% and 17.1% for the years ended 31 March 2018 and 2019, respectively.

Net profit for the year

Our net profit for the year increased by approximately HK\$4.8 million or 14.4% from approximately HK\$33.0 million for the year ended 31 March 2018 to approximately HK\$37.8 million for the year ended 31 March 2019, as a result of the cumulative effects of the factors described above.

FINANCIAL INFORMATION

Four months ended 31 July 2018 as compared to four months ended 31 July 2019

Revenue

Our revenue increased by approximately HK\$9.5 million or 59.7% from approximately HK\$15.9 million for the four months ended 31 July 2018 to approximately HK\$25.5 million for the four months ended 31 July 2019, mainly due to significant increase in placing and underwriting services income and interest income from margin clients.

Our brokerage commission income from the provision of brokerage services increased by HK\$1.3 million or 23.2% from approximately HK\$5.7 million for the four months ended 31 July 2018 to approximately HK\$7.0 million for the four months ended 31 July 2019. The increase was primarily due to an increase in trading turnover recorded in client accounts in the amount of approximately HK\$885.0 million or 30.4% from approximately HK\$2.9 billion for the four months ended 31 July 2018 to approximately HK\$3.8 billion for the four months ended 31 July 2019. According to the market statistics from the HKEX, the total trading volume in respect of securities listed on the Stock Exchange increased by approximately 3,601 billion shares from approximately 16,317 billion shares for the four months ended 31 July 2018 to approximately 19,918 billion shares for the four months ended 31 July 2019.

Our interest income from our margin clients and cash clients increased by approximately HK\$1.9 million or 55.4% from approximately HK\$3.5 million for the four months ended 31 July 2018 to approximately HK\$5.4 million for the four months ended 31 July 2019. Such increase was primarily due to the increase in average monthly margin balance granted to our clients in the amount of approximately HK\$67.0 million or 58.5%, from approximately HK\$114.5 million for the four months ended 31 July 2018 to approximately HK\$181.5 million for the four months ended 31 July 2019. We increased our margin book by utilizing our bank facilities and internal resources derived from our operations.

Our interest income from cash clients decreased by approximately HK\$132,000 or 49.3% from approximately HK\$268,000 for the four months ended 31 July 2018 to approximately HK\$136,000 for the four months ended 31 July 2019, mainly due to a decrease in the amount of delayed settlement of trades by our cash clients.

Our placing and underwriting services income increased by approximately HK\$6.4 million or 102.5% from approximately HK\$6.3 million for the four months ended 31 July 2018 to approximately HK\$12.7 million for the four months ended 31 July 2019. Such significant increase was primarily attributable to an increase in number in respect of fundraising or placing exercises (which were generally more sizable) from 7 for the four months ended 31 July 2018 to 12 for the four months ended 31 July 2019. The amount of commission income we derived from carrying out placing and underwriting engagements ranged from HK\$110,000 to approximately HK\$2.5 million for the four months ended 31 July 2018 (average commission income of approximately HK\$897,000 per engagement), and ranged from approximately HK\$70,000 to approximately HK\$5.0 million for the four months ended 31 July 2019 (average commission income of approximately HK\$1.0 million per engagement).

FINANCIAL INFORMATION

There were no investment advisory services fee income recorded for the four months ended 31 July 2019 in comparison to HK\$178,000 for the four months ended 31 July 2018. This was attributable to the termination of investment advisory contracts with clients during the year ended 31 March 2019 and no income was recorded for the segment.

Our handling and other fee income represents fees charged to clients for services ancillary to our securities trading services (such as deposit or withdrawal of physical shares, bonus shares collection, cash dividend collection, scrip dividend fee, settlement fee, custodian fee, and fee for handling other corporate actions). This amounted to approximately HK\$345,000 for the four months ended 31 July 2018 and approximately HK\$369,000 for the four months ended 31 July 2019. The handling and other fee income was remained relatively stable.

Segment results

Brokerage services

Our segment profit from the provision of our brokerage services increased by approximately HK\$1.2 million or 23.0% from approximately HK\$5.4 million for the four months ended 31 July 2018 to approximately HK\$6.6 million for the four months ended 31 July 2019. The increase was primarily due to increase in our revenue derived from executing and facilitating the execution of trade orders of clients. There was an increase in trading turnover recorded in client accounts in the amount of approximately HK\$885.0 million or 30.4% from approximately HK\$2.9 billion for the four months ended 31 July 2018 to approximately HK\$3.8 billion for the four months ended 31 July 2019. According to market statistics from the HKEX, the total trading volume in respect of securities listed on the Stock Exchange increased by approximately 3,601 billion shares from approximately 16,317 billion shares for the four months ended 31 July 2018 to approximately 19,918 billion shares for the four months ended 31 July 2019. For details please refer to the section headed “Financial information – Period-to-period comparison of results of operation – Revenue” in this prospectus.

The segment margin of our brokerage services remained stable at approximately 89.1% and 89.7% for each of the four months ended 31 July 2018 and 2019 respectively.

Margin financing services

The segment profit from the provision of margin financing services increased by approximately HK\$1.5 million or 42.9% from approximately HK\$3.5 million for the four months ended 31 July 2018 to approximately HK\$4.9 million for the four months ended 31 July 2019 primarily due to an increase in interest income derived from margin loans we granted to our clients. There was an increase in average monthly margin balance granted to our clients in the amount of approximately HK\$67.0 million or 58.5%, from approximately HK\$114.5 million for the four months ended 31 July 2018 to approximately HK\$181.5 million for the four months ended 31 July 2019. For details, please refer to the section headed “Financial information – Period-to-period comparison of results of operation – Revenue” in this prospectus.

FINANCIAL INFORMATION

The segment margin of our margin financing services decreased by approximately 8.0% from approximately 99.9% for the four months ended 31 July 2018 to approximately 91.9% for the four months ended 31 July 2019, primarily due to higher interest expenses incurred for bank borrowings of amounting to HK\$30 million to fulfill demand from our clients for margin loans.

Placing and underwriting services

The segment profit from the provision of placing and underwriting services increased by approximately HK\$7.2 million or 167.3% from approximately HK\$4.3 million for the four months ended 31 July 2018 to approximately HK\$11.4 million for the four months ended 31 July 2019. Such increase was primarily due to an increase in revenue derived from commission income from our placing and underwriting services. There was an increase in number in respect of fundraising or placing exercises (which were generally more sizable) from 7 for the four months ended 31 July 2018 to 12 for the four months ended 31 July 2019. The amount of commission income we derived from carrying out placing and underwriting engagements ranged from HK\$110,000 to approximately HK\$2.5 million for the four months ended 31 July 2018 (average commission income of approximately HK\$897,000 per engagement), and ranged from approximately HK\$70,000 to approximately HK\$5.0 million for the four months ended 31 July 2019 (average commission income of approximately HK\$1.0 million per engagement). For details, please refer to the section headed “Financial information – Period-to-period comparison of results of operation – Revenue” in this prospectus.

The segment margin from the provision of placing and underwriting services increased by approximately 21.8% from approximately 68.1% for the four months ended 31 July 2018 to approximately 89.9% for the four months ended 31 July 2019. Such increase was attributable to the increment in segment revenue derived from our placing and underwriting services (which increased by approximately 102.5%) and the decrease in related expenses, primarily commission expenses paid to the executive director of our equity capital market department (which decreased by approximately 38.3%) for the four months ended 31 July 2019. The decrease of commission expenses was due to the decrease of the aggregate commission received by us from the projects which were introduced by the executive director of our equity capital market department from 100.0% to 30.6% of our total revenue derived from our placing and underwriting services for the four months ended 31 July 2018 and 2019, respectively.

Investment advisory services

There were no profit or loss recorded from our provision of investment advisory business for the four months ended 31 July 2019 in comparison to the loss of approximately HK\$32,000 recorded for the four months ended 31 July 2018. This was due to no income recorded for the investment advisory services for the four months ended 31 July 2019 as a result of termination of investment advisory contracts with clients during the year ended 31 March 2019.

FINANCIAL INFORMATION

Other gains and losses

We recorded other losses of approximately HK\$37,000 for the four months ended 31 July 2018, while we recorded other losses of approximately HK\$87,000 for the four months ended 31 July 2019. Our other losses for the four months ended 31 July 2018 was mainly due to a fair value loss recognized in respect for held-for-trading investments, while our other losses for the four months ended 31 July 2019 was solely due to exchange loss incurred from the exchange of foreign currency in the ordinary course of our brokerage business.

Other income

Our other income mainly comprised bank interest income, dividend income received from held-for-trading investments, and other income received from clients. Our other income increased from approximately HK\$125,000 for the four months ended 31 July 2018 to approximately HK\$255,000 for the four months ended 31 July 2019, representing an increase of approximately 104.0%. Such increase was mainly due to increase in bank interest income from approximately HK\$72,000 for the four months ended 31 July 2018 to approximately HK\$238,000 for the four months ended 31 July 2019, as a result of approximately HK\$100.0 million under trust and segregated accounts placed in a bank with higher deposit interest rate since June 2018.

Staff costs

Our staff costs increased from approximately HK\$1.8 million for the four months ended 31 July 2018 to approximately HK\$2.1 million for the four months ended 31 July 2019, representing an increase of approximately 19.0%. The increase was primarily due to appointment of Mr. Ng Sik Chiu as a Director on 16 January 2019 and subsequent increment of Directors' remuneration.

Finance costs

Our finance costs increased by approximately HK\$404,000 or approximately 762.3% from approximately HK\$53,000 for the four months ended 31 July 2018 to approximately HK\$457,000 for the four months ended 31 July 2019, primarily due to increased interest payable on bank borrowings of amounting to HK\$30 million which was utilised during the year ended 31 March 2019.

Impairment loss, net of reversal

There were no impairment loss for each of the four months ended 31 July 2018 and 2019.

FINANCIAL INFORMATION

Commission expenses

Our commission expenses decreased by approximately HK\$802,000 or 38.3% from approximately HK\$2.1 million for the four months ended 31 July 2018 to approximately HK\$1.3 million for the four months ended 31 July 2019, mainly attributable to a decrease in commission expenses paid to the executive director of our equity capital markets department for introduction of placing and underwriting projects to us.

Other expenses

We recorded other expenses in the amount of approximately HK\$1.3 million for the four months ended 31 July 2018 which related to fees incurred in connection with undertaken in relation to our earlier attempt of proposed application for a listing on the Main Board in 2018. There was no other expenses recorded for the four months ended 31 July 2019.

Depreciation of property and equipment

Our property and equipment recorded stable depreciation in the amount of approximately HK\$592,000 and HK\$588,000 for the four months ended 31 July 2018 and 2019 respectively.

Other operating expenses

Our operating expenses increased by approximately HK\$86,000 or 6.5% from approximately HK\$1.3 million for the four months ended 31 July 2018 to approximately HK\$1.4 million for the four months ended 31 July 2019, mainly due to an increase in information services expenses which was incurred in line with the trading turnover of the Group.

Taxation

Our tax expenses increased by approximately HK\$1.6 million or 95.6% from approximately HK\$1.6 million for the four months ended 31 July 2018 to approximately HK\$3.2 million for the four months ended 31 July 2019, as a result in an increase in profit before tax, primarily attributable to a substantial increase in commission income from our provision of placing and underwriting services and interest income from our margin clients. Our effective tax rate amounted to approximately 21.0% and 21.7% for the four months ended 31 July 2018 and 2019 respectively.

Net profit for the period

Our net profit for the four months ended 31 July 2019 increased by approximately HK\$5.4 million or 87.7% from approximately HK\$6.1 million for the four months ended 31 July 2018 to approximately HK\$11.5 million for the four months ended 31 July 2019, as a result of the cumulative effects of the factors described above.

FINANCIAL INFORMATION

LIQUIDITY AND FINANCIAL RESOURCES

During the Track Record Period, our working capital and other capital requirements were principally satisfied by cash generated from our financing and operating activities.

As at 31 July 2019, we had cash and cash equivalents of approximately HK\$38.0 million and we had bank borrowings in the principal amount of HK\$30 million.

Following the completion of the Listing, we expect that our liquidity requirements will be satisfied using a combination of cash generated from operating activities, net proceeds from the Share Offer and where necessary, additional equity and/or debt financing.

The following table summarises, our combined statement of cash flows for the years/ periods indicated:

	For the year ended 31 March			For the four months ended 31 July	
	2017	2018	2019	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Operating cash flows before movements in working capital	19,734	42,310	46,886	8,352	15,481
Net cash generated from/(used in) operating activities	22,094	43,102	(58,798)	(53,004)	9,472
Net cash used in investing activities	(437)	(105)	–	–	(40)
Net cash (used in)/generated from financing activities	<u>(16,752)</u>	<u>(1,776)</u>	<u>27,798</u>	<u>4,566</u>	<u>(1,683)</u>
Net increase/(decrease) in cash and cash equivalents	4,905	41,221	(31,000)	(48,438)	7,749
Cash and cash equivalents at beginning of the year/period	<u>15,101</u>	<u>20,006</u>	<u>61,227</u>	<u>61,227</u>	<u>30,227</u>
Cash and cash equivalents at end of the year/period	<u>20,006</u>	<u>61,227</u>	<u>30,227</u>	<u>12,789</u>	<u>37,976</u>

Cash flows from operating activities

Our Group generates its cash inflow from operating activities principally from the receipt of brokerage commission income from the provision of brokerage services; interest income from loans granted to cash and margin clients and placing and underwriting services income. Our Group's cash outflow from operating activities principally comprised of commission expenses, staff costs and all other operating expenses such as information services expenses and CCASS charges.

FINANCIAL INFORMATION

For the year ended 31 March 2017

For the year ended 31 March 2017, our Group's operating cash flow before working capital movements was approximately HK\$19.7 million and primarily consisted of profit before taxation of approximately HK\$18.0 million, mainly adjusted for depreciation of property and equipment in the amount of approximately HK\$1.7 million. The working capital movements amounted to approximately HK\$9.3 million, which was mainly attributable to (i) an increase in accounts payable in the amount of approximately HK\$71.1 million due to an increase in deposit balances in client accounts as at 31 March 2017; and (ii) an increase in other payables and accrued charges in the amount of approximately HK\$1.7 million, due to an increase in accrual of expenses relating to the Listing, which was offset by (i) an increase in deposits, prepayments and other receivables in the amount of approximately HK\$1.0 million; (ii) an increase in accounts receivable in the amount of approximately HK\$9.9 million mainly due to an increase in accounts receivable arising from our placing and underwriting business; and (iii) an increase in bank balances from trust and segregated accounts in the amount of approximately HK\$52.9 million. Our Group's net cash from operating activities after income tax expenses, dividend income and interest income amounted to approximately HK\$22.1 million for the year ended 31 March 2017.

For the year ended 31 March 2018

For the year ended 31 March 2018, our Group's operating cash flow before working capital movements was approximately HK\$42.3 million, and primarily consisted of profit before taxation in the amount of approximately HK\$39.9 million, mainly adjusted for depreciation of property and equipments in the amount of approximately HK\$1.8 million. The working capital movements amounted to approximately HK\$6.4 million which was mainly attributable to an increase in accounts payable in the amount of approximately HK\$33.8 million (which mainly resulted from an increase in balances in margin accounts of margin clients that had sold securities but the relevant transactions were pending settlement from CCASS), which was primarily offset by an increase in bank balances from trust and segregated accounts in the amount of approximately HK\$29.5 million mainly due to an increase in deposit balance in client accounts as at 31 March 2018. Our Group's net cash from operating activities after income tax expenses, dividend income and interest income amounted to approximately HK\$43.1 million for the year ended 31 March 2018.

FINANCIAL INFORMATION

For the year ended 31 March 2019

For the year ended 31 March 2019, our Group's operating cash flow before working capital movements was approximately HK\$46.9 million, and primarily consisted of profit before taxation of approximately HK\$45.6 million, mainly adjusted for depreciation of property and equipment in the amount of approximately HK\$1.8 million. The working capital movements amounted to approximately HK\$97.0 million which was mainly attributable to (i) an increase in accounts receivable in the amount of approximately HK\$75.5 million mainly due to an increase in the amount of outstanding margin loans granted to our margin clients as at the reporting date; and (ii) a decrease in accounts payable in the amount of approximately HK\$31.9 million mainly due to a decrease in deposit balance in our clients' margin accounts and sale of securities which were pending settlement from CCASS from margin client as compared to the corresponding period in 2018. Our Group's net cash used in operating activities after the income tax expenses, dividend income and interest income amounted to approximately HK\$58.8 million for the year ended 31 March 2019.

For the four months ended 31 July 2018

For the four months ended 31 July 2018, our Group's operating cash flow before working capital movements was approximately HK\$8.4 million, and primarily consisted of profit before taxation in the amount of approximately HK\$7.7 million, mainly adjusted for depreciation of property and equipments in the amount of approximately HK\$592,000. The working capital movements amounted to approximately HK\$61.4 million which was mainly attributable to (i) an increase in accounts receivable in the amount of approximately HK\$46.3 million mainly due to an increase in accounts receivable from margin clients; and (ii) a decrease in accounts payable in the amount of approximately HK\$10.3 million mainly due to a decrease in deposit balance in our clients' margin accounts. Our Group's net cash used in operating activities after income tax expenses, dividend income and interest income amounted to approximately HK\$53.0 million for the four months ended 31 July 2018.

For the four months ended 31 July 2019

For the four months ended 31 July 2019, our Group's operating cash flow before working capital movements was approximately HK\$15.5 million, and primarily consisted of profit before taxation in the amount of approximately HK\$14.7 million, mainly adjusted for interest expenses and depreciation of property and equipments in the amounts of approximately HK\$457,000 and HK\$588,000, respectively. The working capital movements amounted to approximately HK\$6.2 million which was mainly attributable to an increase in accounts receivable in the amount of approximately HK\$31.8 million mainly due to an increase in accounts receivable from the HKSCC as there was an increase in trading turnover of our clients near the reporting date, and it was partially offset by (i) a decrease in bank balances for trust and segregated accounts in the amount of approximately HK\$17.8 million mainly due to more trades of securities were placed in the reporting period; and (ii) a increase in accounts payable in the amount of approximately HK\$5.5 million mainly due to an increase in sales of securities which were pending settlement from CCASS on behalf of our margin clients. Our Group's net cash from operating activities after income tax expenses, dividend income and interest income amounted to approximately HK\$9.5 million for the four months ended 31 July 2019.

FINANCIAL INFORMATION

Net cash used in investing activities

During the Track Record Period, our Group's cash outflow from investing activities primarily resulted from purchases of property and equipment.

For the year ended 31 March 2017

For the year ended 31 March 2017, our net cash used in investing activities amounted to approximately HK\$437,000, which was primarily attributable to purchases of property and equipment and renovation (in the amount of approximately HK\$437,000), incurred from the relocation of our office.

For the year ended 31 March 2018

For the year ended 31 March 2018, our net cash used in investing activities amounted to approximately HK\$105,000, which was primarily attributable to purchases of computers and trading systems.

For the year ended 31 March 2019

For the year ended 31 March 2019, our Group did not use any cash for investing activities.

For the four months ended 31 July 2018

For the four months ended 31 July 2018, our Group did not use any cash for investing activities.

For the four months ended 31 July 2019

For the four months ended 31 July 2019, our net cash used in investing activities amounted to approximately HK\$40,000, which was primarily attributable to purchases of a computer and hardware upgrade.

Net cash used in financing activities

During the Track Record Period, our Group's cash outflow from financing activities primarily consisted of repayment of loans to shareholders and lease payments (including interest paid). Our Group's cash inflow from financing activities primarily consisted of new bank loan.

For the year ended 31 March 2017

For the year ended 31 March 2017, our Group recorded net cash used in financing activities in the amount of approximately HK\$16.8 million primarily as a result of repayment of amounts due to shareholders in the amount of approximately HK\$15.0 million, and lease payments (including interest paid) in the amount of approximately HK\$1.6 million.

FINANCIAL INFORMATION

For the year ended 31 March 2018

For the year ended 31 March 2018, our Group recorded net cash used in financing activities in the amount of approximately HK\$1.8 million, primarily as a result of lease payments (including interest paid).

For the year ended 31 March 2019

For the year ended 31 March 2019, our Group recorded net cash generated from financing activities in the amount of approximately HK\$27.8 million, primarily as a result of proceeds from a new bank loan in the amount of HK\$30 million which was partially offset by the lease payments (including interest paid).

For the four months ended 31 July 2018

For the four months ended 31 July 2018, our Group recorded net cash generated from financing activities in the amount of approximately HK\$4.6 million, primary as a result of proceeds from the drawdown of existing bank facilities which was partially offset by the lease payments (including interest paid).

For the four months ended 31 July 2019

For the four months ended 31 July 2019, our Group recorded net cash used in financing activities in the amount of approximately HK\$1.7 million, primarily as a result of payment of issue costs and the lease payments (including interest paid).

INDEBTEDNESS

As at 31 March 2017, 2018 and 2019 and 31 July 2019, our Group had outstanding bank loan of nil, nil, HK\$30 million and HK\$30 million, respectively, which was secured and guaranteed by the Controlling Shareholders, Mr. Keng and Ms. Yeung and repayable on demand. As at 30 November 2019, being the latest practicable date for the purpose of this indebtedness statement, our Group had bank facilities in the aggregate principal amount of HK\$50 million guaranteed by our Controlling Shareholders, Mr. Keng and Ms. Yeung, of which HK\$30 million was secured by collateral provided by the Group's margin clients' marketable securities, and HK\$29.9 million of which has been utilised and are repayable on demand, while the remaining HK\$20 million unsecured facility remains unutilised. We also have a lease liability in the amount of approximately HK\$0.3 million which was secured by a rental deposit and unguaranteed. As at 31 March 2017, 2018 and 2019 and 31 July 2019 and 30 November 2019, the effective interest rate of our debt were nil, nil, one month HIBOR +2.25% per annum, one month HIBOR +2.25% per annum and one month HIBOR +2.25% per annum, respectively.

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Save as aforesaid or as otherwise disclosed herein, as at 30 November 2019, being the latest practicable date for the purpose of the indebtedness statement, our Group did not have any loan capital issued or outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, material covenants, or other material contingent liabilities.

Our Directors confirmed that during the Track Record Period up to the Latest Practicable Date, there was no material default in payment of debts or breach of related covenants.

WORKING CAPITAL

During the Track Record Period, our Group met its working capital and other liquidity requirements principally from cash generated from its operations. After due and careful enquiry, our Directors are of the opinion that, taking into consideration financial resources available to our Group (including internally generated funds, available banking facilities and the estimated net proceeds from the Share Offer), our Group has sufficient working capital for its present requirements, for at least the next twelve months from the date of this prospectus.

CAPITAL EXPENDITURE

As at 31 March 2017, 2018 and 2019 and 31 July 2019 and the Latest Practicable Date, our Group did not have any significant capital expenditure.

CAPITAL COMMITMENTS

As at 31 March 2017, 2018 and 2019 and 31 July 2019 and the Latest Practicable Date, our Group did not have any significant capital commitments.

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NET CURRENT ASSETS

As at 31 March 2017, 2018 and 2019, 31 July 2019 and 30 November 2019, our Group had net current assets of approximately HK\$111.9 million, HK\$144.8 million, HK\$183.5 million, HK\$195.6 million and HK\$195.7 million, respectively. Details of the components are set out as follows:

	As at 31 March			As at 31 July 2019	As at 30 November 2019
	2017	2018	2019	2019	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current assets					
Accounts receivable	130,544	128,783	204,687	236,503	235,256
Deposits and prepayments	1,119	1,642	1,713	3,041	5,531
Held-for-trading investments	999	823	–	–	–
Bank balances					
– trust and segregated accounts	116,342	145,872	137,608	119,826	91,246
Bank balances					
– general accounts and cash	<u>20,006</u>	<u>61,227</u>	<u>30,227</u>	<u>37,976</u>	<u>25,958</u>
	<u>269,010</u>	<u>338,347</u>	<u>374,235</u>	<u>397,346</u>	<u>357,991</u>
Current liabilities					
Accounts payable	152,280	186,070	154,173	159,689	115,788
Other payables and accrued charges	2,018	3,302	4,010	6,954	10,011
Bank borrowings	–	–	30,000	30,000	29,922
Tax payable	1,229	2,493	1,081	4,264	6,319
Lease liabilities	<u>1,572</u>	<u>1,655</u>	<u>1,445</u>	<u>874</u>	<u>294</u>
	<u>157,099</u>	<u>193,520</u>	<u>190,709</u>	<u>201,781</u>	<u>162,334</u>
Net current assets	<u>111,911</u>	<u>144,827</u>	<u>183,526</u>	<u>195,565</u>	<u>195,657</u>

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Our net current assets amounted to approximately HK\$111.9 million, HK\$144.8 million, HK\$183.5 million and HK\$195.6 million as at 31 March 2017, 2018 and 2019 and 31 July 2019, respectively. Our net current assets position improved as at 31 March 2018 compared to 31 March 2017 mainly as a result of an increase in bank balances in both trust and segregated accounts and general accounts and cash. It improved from 31 March 2018 to 31 March 2019 and further improved to 31 July 2019 mainly as a result of an increase in accounts receivable.

Based on the unaudited management accounts, as at 30 November 2019, being the indebtedness date for the purpose of this statement, the net current assets were approximately HK\$195.7 million. The slight increase in net current asset position was mainly attributable to the decrease in accounts payable.

Our Directors confirm that we did not have any material default in payables of trade and non-trade payables during the Track Record Period.

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

Accounts receivable

Our accounts receivable include trade receivables which primarily comprised receivable from the HKSCC, margin clients, cash clients and the HKSCC. The following table sets forth the breakdown of our accounts receivable as at 31 March 2017, 2018 and 2019 and 31 July 2019:

	As at 31 March			As at 31 July 2019
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000
Accounts receivable arising from the business of dealing in securities				
– HKSCC	21,578	17,308	7,058	35,246
– Cash clients	25,510	23,490	9,476	3,756
– Margin clients	82,032	86,229	184,914	192,077
– Brokers	273	–	823	–
Accounts receivable arising from placing and underwriting services	1,297	2,185	2,416	5,424
Accounts receivable arising from investment advisory services	–	82	–	–
	130,690	129,294	204,687	236,503
Less: allowance for doubtful debts				
– Accounts receivable arising from the business of dealing in securities	(146)	(146)	–	–
– Accounts receivable arising from placing and underwriting services	–	(365)	–	–
	<u>130,544</u>	<u>128,783</u>	<u>204,687</u>	<u>236,503</u>

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Our net accounts receivable decreased from approximately HK\$130.5 million as at 31 March 2017 to approximately HK\$128.9 million as at 31 March 2018. Such decrease was mainly due to decrease in receivables from the HKSCC, resulting from the decrease in trading turnover of our clients near the respective reporting dates.

Our accounts receivable increased from approximately HK\$128.8 million as at 31 March 2018 to approximately HK\$204.7 million as at 31 March 2019. Such increase was mainly due to an increase in receivables from margin clients, as a result of an increase in the amount of outstanding margin loans as at 31 March 2019 which was attributable to an increase in our margin book during the year ended 31 March 2019.

Our accounts receivable increased from approximately HK\$204.7 million as at 31 March 2019 to approximately HK\$236.5 million as at 31 July 2019. Such increase was mainly due to an increase in accounts receivable from the HKSCC which was attributable to the increase in trading turnover of our clients near the reporting date.

The settlement terms of accounts receivable from cash clients and the HKSCC are on a T+2 settlement basis. Accounts receivable from the HKSCC are related to the amount receivables in respect of securities sold and pending T+2 settlement from the HKSCC. Our accounts receivable from the HKSCC decreased from approximately HK\$21.6 million as at 31 March 2017, to approximately HK\$17.3 million as at 31 March 2018 and decreased further to approximately HK\$7.1 million as at 31 March 2019, mainly attributable to the decrease in trading turnover of our clients near the respective reporting dates. However, our accounts receivable from the HKSCC increased to approximately HK\$35.2 million as at 31 July 2019 which was due to the increase in trading turnover of our clients near the reporting date.

Accounts receivable from cash clients represents the outstanding purchase transactions by our cash clients that were executed but not yet settled in cash pursuant to the T+2 settlement basis and the accumulated unsettled amount which is beyond the T+2 period as at the reporting dates. Our accounts receivable from cash clients decreased from approximately HK\$25.5 million as at 31 March 2017 to approximately HK\$23.5 million as at 31 March 2018 and further decreased to approximately HK\$9.5 million as at 31 March 2019 and to approximately HK\$3.8 million as at 31 July 2019. Mainly attributable to the decrease in amount of securities bought pending for settlement as at the respective reporting dates.

Accounts receivable from margin clients related to securities purchases on credit by clients having margin accounts with us. Margin financing loans granted by us were secured by clients' securities pledged as collateral and bore interest at interest rates ranging from the Hong Kong Prime Rate plus 2% to 21.6% per annum for the years ended 31 March 2017, 2018 and 2019, and ranging from the Hong Kong Prime Rate plus 2% to 14.4% per annum for the four months ended 31 July 2019. The balances of accounts receivable from margin clients increased from approximately HK\$82.0 million as at 31 March 2017 to approximately HK\$86.2 million as at 31 March 2018 due to an increase in the amount of outstanding margin loans granted to our margin clients as at the reporting date. The balance of accounts receivable from margin clients significantly increased from approximately HK\$86.2 million as at 31 March 2018 to approximately HK\$184.9 million as at 31 March 2019 due to an increase in the amount of outstanding margin loans granted to our margin clients as at the reporting

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date, margin book was expanded as we had new bank loan during the year ended 31 March 2019. The balance of accounts receivable from margin clients further increased to approximately HK\$192.1 million as at 31 July 2019 as the margin book was expanded by using the Group's internal resources.

Our accounts receivable arising from our provision of placing and underwriting services increased from approximately HK\$1.3 million as at 31 March 2017 to approximately HK\$2.2 million as at 31 March 2018 mainly due to an increase in average commission income undertaken during the year ended 31 March 2018.

Our accounts receivable arising from our provision of placing and underwriting services increased from approximately HK\$2.2 million as at 31 March 2018 to approximately HK\$2.4 million as at 31 March 2019 and further increased to approximately HK\$5.4 million as at 31 July 2019 mainly due to an increase in both the number of projects completed and the average commission income during the year ended 31 March 2019 and four months ended 31 July 2019, respectively.

Our accounts receivable arising from investment advisory services amounted to approximately HK\$82,000 as at 31 March 2018, which was neither past due nor impaired.

As at the Latest Practicable Date, approximately 65.6% (or approximately HK\$155.0 million) of accounts receivable as at 31 July 2019 have been settled.

The following table sets forth the margin loan amount that we provided to our clients, the market value of securities pledged by our clients as collateral, and the leverage ratio of our clients as at the end of each financial year:

	As at 31 March			As at 31 July
	2017	2018	2019	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Margin loan amounts that we provided to our clients (HK\$'000)	82,032	86,229	184,914	192,077
Market value of securities pledged by our clients as collateral (HK\$'000)	874,203	824,053	821,256	782,924
Leverage ratio of our clients (Note)	9.4%	10.5%	22.5%	24.5%

Note: leverage ratio of our clients is calculated as the actual margin loan amount that we provided to our clients divided by the market value of securities pledged by our clients as collateral.

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The market value of securities pledged as collateral remained relatively stable, amounting to approximately HK\$874.2 million, HK\$824.1 million and HK\$821.3 million as at 31 March 2017, 2018 and 2019, respectively. The margin loan amounts granted to our clients remained stable as at 31 March 2017 and 2018, amounting to approximately HK\$82.0 million and HK\$86.2 million, respectively. The leverage ratio of our clients as at 31 March 2017 and 2018 which amounting to approximately 9.4% and 10.5%, respectively, also remained stable.

The margin loan amounts granted to our clients significantly increased from approximately HK\$86.2 million as at 31 March 2018 to approximately HK\$184.9 million as at 31 March 2019 because we had more bank facilities and internal resources during the year ended 31 March 2019. The leverage ratio of our clients increased from approximately 10.5% as at 31 March 2018 to approximately 22.5% as at 31 March 2019 accordingly.

The market value of securities pledged as collateral slightly decreased to HK\$782.9 million as at 31 July 2019 due to the recent economic and political environment and market conditions in Hong Kong. The leverage ratio of our clients increased to approximately 24.5% as at 31 July 2019.

The table below sets out the aging analysis of our accounts receivable from cash clients which were past due but not impaired as at the dates indicated:

	As at 31 March			As at 31 July 2019
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000
0-30 days	13,222	6,855	7,905	233
31-60 days	2	9	448	76
61-90 days	29	1	1	2,110
Over 90 days	<u>104</u>	<u>57</u>	<u>108</u>	<u>111</u>
	<u>13,357</u>	<u>6,922</u>	<u>8,462</u>	<u>2,530</u>

As at 31 March 2017, 2018 and 2019 and 31 July 2019, the amount of accounts receivable from cash clients which was past due but not impaired amounted to approximately HK\$13.4 million, HK\$6.9 million, HK\$8.5 million and HK\$2.5 million respectively. The balances represented late settlement payment of outstanding amounts from our cash clients. All of these outstanding amounts were pledged with securities as collateral and were interest-bearing. We have not provided for impairment loss over these amounts as we are of the view that these amounts are generally recoverable taking into account (i) our credit assessment of cash clients; (ii) outstanding balances are normally fully settled within the following few days; and (iii) our right to liquidate securities in the accounts of cash clients. As at the Latest Practicable Date, approximately 99.6% or HK\$3.7 million of outstanding balances of accounts receivable from cash clients as at 31 July 2019 had been settled and approximately 99.9% or HK\$2.5 million of outstanding balances of accounts receivable from cash clients which were past due but not impaired as at 31 July 2019 had been settled.

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The table below sets out the movements in the allowances for doubtful debts in respect of accounts receivable of cash clients:

	As at 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at beginning of the year	<u>146</u>	<u>146</u>
Balance at end of the year	<u><u>146</u></u>	<u><u>146^{Note}</u></u>

Note: Amount written off as at 1 April 2018 resulted from refinement of write-off policy on the initial application of HKFRS 9.

Our balance of allowances for doubtful debts in respect of accounts receivable from cash clients as at 31 March 2017 and 2018 were approximately HK\$146,000 and HK\$146,000 respectively. Our directors have individually evaluated their accounts receivable for impairment after taking into account the value of the underlying collateral of each borrower, and other information available of those borrowers in default of settlement to determine the net present value of expected future cash inflow.

The Directors believe that the amount is considered recoverable given that the collateral is sufficient to cover the entire balance on an individual basis. No aging analysis is disclosed, as in the opinion of the Directors, the aging analysis does not provide additional useful information in view of the nature of the business of securities margin financing.

The table below sets out the aging analysis of our accounts receivable arising from placing and underwriting services which are past due but not impaired as at the dates indicated:

	As at 31 March			As at
	2017	2018	2019	31 July
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2019
				<i>HK\$'000</i>
0-30 days	632	–	–	875
31-90 days	–	1,500	510	4,159
91-120 days	300	320	1,960	–
121-365 days	<u>365</u>	<u>–</u>	<u>–</u>	<u>390</u>
	<u><u>1,297</u></u>	<u><u>1,820</u></u>	<u><u>2,416</u></u>	<u><u>5,424</u></u>

We have not provided for impairment loss over these amounts as we are of the view that these amounts are recoverable.

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The table below sets out the movements in the allowances for impairment in respect of accounts receivable of placing and underwriting clients:

	As at 31 March			As at
	2017	2018	2019	31 July
	HK\$'000	HK\$'000	HK\$'000	2019 HK\$'000
Balance at beginning of the year	–	–	365	–
Impairment losses recognised	–	365	–	–
Impairment losses reversed	–	–	(365)	–
Balance at end of the year	<u>–</u>	<u>365</u>	<u>–</u>	<u>–</u>

Our balance of allowances for impairment in respect of accounts receivable from placing and underwriting services increased from nil as at 31 March 2017 to HK\$365,000 as at 31 March 2018, mainly due to the balances have been overdue over one year. Our balance of allowances for impairment in respect of account receivable from placing and underwriting services was reset to nil as at 31 March 2019, due to the repayment of impaired debt from a placing and underwriting client during the year ended 31 March 2019.

The table below sets out the amounts of accounts receivable due from certain related parties who were either a cash client or margin client of our securities trading business:

Name	As at 31 March			As at
	2017	2018	2019	31 July
	HK\$'000	HK\$'000	HK\$'000	2019 HK\$'000
Director of the Company				
Mr. Sy and his close members of the family	9	–	–	–
Shareholders of the Company				
Mr. Keng and his close members of the family	1,417	1,483	–	–
Ms. Yeung and her close members of the family	<u>1,027</u>	<u>–</u>	<u>851</u>	<u>605</u>

The above balances are repayable on demand and bear interest at commercial rates which are similar to the rates offered to other cash and margin clients.

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Deposits and prepayments

The following table sets forth the breakdown of deposits, prepayments and deferred issue costs as at 31 March 2017, 2018 and 2019 and 31 July 2019:

	As at 31 March			As at 31 July
	2017	2018	2019	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deposits	795	696	721	654
Prepayments	789	897	248	314
Deferred issue costs	<u>—</u>	<u>537</u>	<u>744</u>	<u>2,073</u>
	<u>1,584</u>	<u>2,130</u>	<u>1,713</u>	<u>3,041</u>
Analyses as:				
Current	1,119	1,642	1,713	3,041
Non-current	<u>465</u>	<u>488</u>	<u>—</u>	<u>—</u>
	<u>1,584</u>	<u>2,130</u>	<u>1,713</u>	<u>3,041</u>

The balances of deposits and prepayments mainly represented rental, utility other deposit, prepayment for expenses and deferred issue costs. It amounted to approximately HK\$1.6 million, HK\$2.1 million, HK\$1.7 million and HK\$3.0 million as at 31 March 2017, 2018 and 2019 and 31 July 2019, respectively. The increase in the balances of deposits and prepayments as at 31 March 2018 and 31 July 2019 was mainly due to increase in deferred issue costs which related to the listing expenses recorded to our Group's reserve account. The decrease in the balances of deposits and prepayments as at 31 March 2019 was primarily due to prepayment of listing expenses.

Held-for-trading investments

Our held-for-trading investments represent our investment portfolio which mainly comprises of securities listed on the Stock Exchange. We have been making investments in listed securities for investment purposes, with a view to obtaining gains from capital appreciation and dividend income. As at 31 March 2017 and 2018, our investment portfolio consisted of four and three listed securities on the Stock Exchange with market value of approximately HK\$999,000 and HK\$823,000, respectively. We recorded our held-for-trading investments at market price as at the end of respective reporting dates, and recognised as the unrealised gains or losses. We disposed all the securities in our investment portfolio and we did not have any held-for-trading investments as at 31 March 2019.

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During the year ended 31 March 2017, we recorded a net gain on fair value change of held-for-trading investments in the amount of approximately HK\$5,000, which comprised realised gain in the amount of approximately HK\$42,000 from the disposal of certain listed securities on the Stock Exchange which was offset by unrealised losses in the amount of approximately HK\$37,000 due to the drop in market price of certain listed securities in our investment portfolio as at 31 March 2017.

During the year ended 31 March 2018, we recorded a net loss on fair value charge of held-for-trading investments in the amount of approximately HK\$114,000, which comprised on realised loss of approximately HK\$40,000 from the disposal of a listed security on the Stock Exchange and unrealised losses of approximately HK\$74,000 due to the drop in market price of certain listed securities in our investment portfolio as at 31 March 2018.

During the year ended 31 March 2019, we disposed of all the securities in our investment portfolio and recorded loss in the amount of approximately HK\$91,000.

Our house account for proprietary trading was closed in June 2019 since we have no intention to carry on proprietary trading in the near future.

Bank balances – trust and segregated accounts

We receive and hold money deposited by clients and other institutions in the course of conducting our regulated activities. These client monies are maintained in one or more segregated bank accounts opened with Authorised Institutions. Our Group recognises the corresponding accounts payable to respective clients and other institutions on the grounds that it is liable for any loss or misappropriation of client monies. The transfer of deposited cash held in the relevant accounts on behalf of clients is restricted and governed by the Securities and Futures (Client Money) Rules under the SFO. As at 31 March 2017, 2018 and 2019 and 31 July 2019, we had approximately HK\$116.3 million, HK\$145.9 million, 137.6 million and HK\$119.8 million in trust and segregated accounts respectively.

Bank balances – general accounts and cash

As at 31 March 2017, 2018 and 2019 and 31 July 2019, we had approximately HK\$20.0 million, HK\$61.2 million, HK\$30.2 million and HK\$38.0 million, respectively in our general accounts and cash. Our bank balances carry interest at rates ranging from 0% to 0.24% per annum as at 31 March 2017, 0% to 0.3% per annum as at 31 March 2018 and 0% to 0.7% per annum as at 31 March 2019 and 31 July 2019. The fluctuation of balances in our general accounts depends on the leverage level of our clients and amount of bank loans in the respective period.

Accounts payable

Our accounts payable included (i) deposits placed with us by our clients in their respective accounts for trading purposes; and (ii) amounts owing to clients who had sold shares through their respective accounts with our Group within the T+2 period which were pending settlement.

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Set out below is the breakdown of the accounts payable of our Group as at 31 March 2016, 2017 and 2018 and 31 July 2019:

	As at 31 March			As at 31 July 2019
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2019 HK\$'000
HKSCC	4,643	–	–	–
Cash clients	117,455	98,495	119,629	103,526
– Client deposits	94,351	88,197	110,218	103,087
– Amounts owing to clients for pending trades	23,104	10,298	9,411	439
Margin clients	30,182	87,575	34,544	56,163
– Client deposits	18,364	57,677	27,544	17,903
– Amounts owing to clients for pending trades	11,818	29,898	7,000	38,260
	<u>152,280</u>	<u>186,070</u>	<u>154,173</u>	<u>159,689</u>

Our accounts payable represent deposit balances of clients accounts and pending settlements for sales of securities listed on the Stock Exchange from cash and margin clients, and the HKSCC. Our accounts payable amounted to approximately HK\$152.3 million, HK\$186.1 million, HK\$154.2 million and HK\$159.7 million as at 31 March 2017, 2018 and 2019 and 31 July 2019, respectively. The increase in accounts payable from 31 March 2017 to 31 March 2018 was attributable to an increase in deposit balance in our clients' margin accounts from approximately HK\$18.4 million as at 31 March 2017 to approximately HK\$57.7 million as at 31 March 2018, while the decrease in accounts payable from 31 March 2018 to 31 March 2019 was mainly due to a decrease in (i) deposit balance in our clients' margin accounts from approximately HK\$57.7 million as at 31 March 2018 to approximately HK\$27.5 million as at 31 March 2019; and (ii) sales of securities which were pending settlement from CCASS on behalf of our margin clients from approximately HK\$29.9 million as at 31 March 2018 to approximately HK\$7.0 million as at 31 March 2019. The slightly increase in accounts payable from 31 March 2019 to 31 July 2019 was mainly due to an increase in sales of securities executed by us on behalf of our margin clients which were pending settlement from CCASS from approximately HK\$7.0 million as at 31 March 2019 to approximately HK\$38.3 million as at 31 July 2019.

Accounts payable to cash clients amounted to approximately HK\$117.5 million, HK\$98.5 million, HK\$119.6 million and HK\$103.5 million as at 31 March 2017, 2018 and 2019 and 31 July 2019, respectively. Accounts payable to margin clients amounted to approximately HK\$30.2 million, HK\$87.6 million, HK\$34.5 million and HK\$56.2 million as at 31 March 2017, 2018 and 2019 and 31 July 2019, respectively. The movements in accounts payable to cash and margin clients were mainly due to fluctuations in securities trading volume of clients, which were affected by stock market conditions and trading appetite of our clients during the Track Record Period.

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Balances with the HKSCC as at year-end represent the amount payable for purchase transactions executed by our clients but not yet settled due to the T+2 settlement basis. Accounts payable to the HKSCC amounted to approximately HK\$4.6 million, nil, nil and nil as at 31 March 2017, 2018 and 2019 and 31 July 2019, respectively.

The table below sets out the amounts of accounts payables due from certain related parties who were either cash clients or margin clients of our securities trading business:

	As at 31 March			As at 31 July
	2017	2018	2019	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Director of the Company				
Mr. Sy and his close members of the family	16	26	164	421
Shareholders of the Company				
Mr. Keng and his close members of the family	1,214	64	64	174
Ms. Yeung and her close members of the family	<u>3,694</u>	<u>558</u>	<u>–</u>	<u>5,308</u>

The above balances are unsecured, non-interest bearing and repayable on demand.

Accounts payable turnover days is calculated by dividing the average balance of accounts payable by the cost of sales for the period, multiplied by the number of days in the respective period. Due to the nature of our business, we do not have any cost of sales. Hence, we consider that it is not appropriate to calculate accounts payable turnover days for the purposes of evaluating the liquidity of our Group.

Other payables and accrued charges

As at 31 March 2017, 2018 and 2019 and 31 July 2019, we recorded other payables and accrued charges of approximately HK\$2.0 million, HK\$3.3 million, HK\$4.0 million and HK\$7.0 million, respectively. The increase in other payables and accrued charges from 31 March 2017 to 31 March 2018 was primarily due to the accrual of expenses related to the Listing, while the increase in other payables and accrued charges from 31 March 2018 to 31 March 2019 was mainly due to an increase in accrual of audit fees for annual accounting reporting purposes. The increase in other payable and accrued charges from 31 March 2019 to 31 July 2019 was mainly due to the accrual of expenses related to the Listing.

Our Directors confirmed that during the Track Record Period up to the Latest Practicable Date, there was no material default in payment of accounts payable.

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DISTRIBUTABLE RESERVES

Our Company was incorporated on 7 June 2016, and has not carried out any business since our incorporation. Accordingly, there were no distributable reserves to our Shareholders as at 31 July 2019.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENT

As at the Latest Practicable Date, we had not entered into any material off-balance sheet commitments, arrangements and contingencies.

KEY FINANCIAL RATIOS

The following table sets out the key financial ratios of our Group during the Track Record Period.

	As at 31 March 2017 (times)	As at 31 March 2018 (times)	As at 31 March 2019 (times)	As at 31 July 2019 (times)
Current ratio ⁽¹⁾	1.7	1.7	2.0	2.0
Gearing ratio ⁽²⁾	N/A ⁽⁶⁾	N/A ⁽⁶⁾	0.2	0.2
	For the year ended 31 March			For the four months ended 31 July 2019
	2017	2018	2019	
Return on total assets ⁽³⁾	4.9%	9.6%	10.0%	N/A ⁽⁷⁾
Return on equity ⁽⁴⁾	11.6%	22.0%	20.1%	N/A ⁽⁷⁾
Net profit margin ⁽⁵⁾	38.2%	58.2%	57.9%	45.1%

Notes:

- (1) Current ratio is calculated based on the current assets divided by the current liabilities as at the end of the year/period.
- (2) Gearing ratio is calculated based on total debts which represent bank borrowings only, divided by total equity as at the end of the year/period.
- (3) Return on total assets is calculated based on profit for the year/period divided by total assets as at the end of the year/period.
- (4) Return on equity is calculated based on profit for the year divided by total equity as at the end of the year/period.
- (5) Net profit margin is calculated by dividing our profit for the year/period by total revenue.
- (6) The ratio is not applicable as the Group had no debt as at the reporting date.
- (7) The ratio is not meaningful given the recorded net profit only represented amount for four months ended 31 July 2019.

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Current ratio

The current ratio of our Group remained fairly stable at approximately 1.7, 1.7, 2.0 and 2.0 as at 31 March 2017, 2018 and 2019 and 31 July 2019 respectively. The slight increase in current ratio from 31 March 2018 to 31 March 2019 was mainly attributable to an increase in accounts receivable from margin clients.

Gearing ratio

Our Group's gearing ratio was approximately 0.2 as at 31 March 2019 and 31 July 2019. We did not have any third party debt as at 31 March 2017 and 2018. We utilised bank facilities of HK\$30 million to fulfil the demand in margin loans from our clients.

Return on total assets

Our Group's return on total assets increased from approximately 4.9% for the year ended 31 March 2017 to approximately 9.6% for the year ended 31 March 2018. This increase was mainly due to an increase in net profit.

Our Group's return on total assets increased from approximately 9.6% as at 31 March 2018 to approximately 10.0% as at 31 March 2019, mainly due to an increase in net profit because of the significant increase in revenue derived from our placing and underwriting services.

Return on equity

Our Group's return on equity increased from approximately 11.6% for the year ended 31 March 2017 to approximately 22.0% for the year ended 31 March 2018, primarily due to an increase in net profit.

Our Group's return on equity slightly decreased from approximately 22.0% as at 31 March 2018 to approximately 20.1% as at 31 March 2019, primarily due to the increase in accounts receivable from margin clients. We loaned more to our clients in the year.

Net profit margin

Our Group's net profit margin increased from 38.2% for the year ended 31 March 2017 to 58.2% for the year ended 31 March 2018. Such material increase was attributable to the non-recurring nature of expenses (including fees and costs) which we incurred in connection with preparation and efforts to apply for a listing on GEM during the year ended 31 March 2017, and such expenses were not incurred for the year ended 31 March 2018.

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Our Group's net profit margin remained stable for the year ended 31 March 2019 as compared to that for the year ended 31 March 2018. Our Group's net profit margin slightly decreased by approximately 0.3% from approximately 58.2% for the year ended 31 March 2018 to approximately 57.9% for the years ended 31 March 2019. Our Group's revenue and net profit before interest & tax increased at nearly the same pace over the respective years. The slight decrease in our Group's net profit margin was mainly due to an increase in finance costs.

Our Group's net profit margin increased from approximately 38.4% for the four months ended 31 July 2018 to approximately 45.1% for the four months ended 31 July 2019. Such increase was mainly attributable to the increase in revenue generated from placing and underwriting service with higher segment margin for the four months ended 31 July 2019.

RELATED PARTIES TRANSACTIONS

During the Track Record Period, our Group entered into certain related party transactions. Set out below is a summary of the nature of the transactions and the transaction amount with our related parties during the Track Record Period:

	Year ended 31 March			For the four months ended	
	2017	2018	2019	31 July	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Commission income received from the following Directors, Shareholders and related party of the Company					
– Mr. Sy and close members of his family	41	54	25	11	1
– Mr. Keng and close members of his family	70	53	10	–	–
– Ms. Yeung and close members of her family	110	131	65	46	22
– Mr. Li Qing Feng and close members of his family (Note 1)	5	–	–	–	–
– NEO Tycoon Limited (Note 2)	157	69	156	100	41
	<u>383</u>	<u>307</u>	<u>256</u>	<u>157</u>	<u>64</u>
Commission expenses paid to the following Director of the Company					
– Mr. Sy	98	44	19	2	12

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	Year ended 31 March			For the four months ended	
				31 July	
	2017	2018	2019	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Interest income received from the following Directors, Shareholders and related party of the Company					
– Mr. Sy and close members of his family	23	19	–	–	–
– Mr. Keng and close members of his family	63	–	–	–	–
– Ms. Yeung and close members of her family	106	43	76	34	27
– NEO Tycoon Limited	<u>–</u>	<u>–</u>	<u>143</u>	<u>123</u>	<u>–</u>
	<u>192</u>	<u>62</u>	<u>219</u>	<u>157</u>	<u>27</u>
Handling fee income from the following Directors, Shareholders and related party of the Company					
– Mr. Sy and close members of his family	2	3	2	1	1
– Mr. Keng and close members of his family	4	8	3	2	1
– Ms. Yeung and close members of her family	20	13	5	2	6
– NEO Tycoon Limited	<u>9</u>	<u>22</u>	<u>7</u>	<u>3</u>	<u>4</u>
	<u>35</u>	<u>46</u>	<u>17</u>	<u>8</u>	<u>12</u>

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	Year ended 31 March			For the four months ended	
				31 July	
	2017	2018	2019	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Investment advisory services					
fee income received from					
the following related party					
of the Company					
– Sino Pacific Capital (Note 3)	<u>–</u>	<u>450</u>	<u>50</u>	<u>50</u>	<u>–</u>
Salaries paid to the following					
Shareholder of the Company					
– Ms. Yeung and close					
members of her family	<u>249</u>	<u>358</u>	<u>433</u>	<u>122</u>	<u>252</u>

Compensation of key management personnel represents directors' remuneration as disclosed in note 15 of the Accountants' Report contained in Appendix I to this prospectus.

Note 1: Mr. Li Qing Feng is a director of Sinomax Securities and he is also a close family member of Mr. Keng, the Shareholder of the Company.

Note 2: The shareholder of NEO Tycoon Limited is a close family member of Ms. Yeung, the Shareholder of the Company.

Note 3: Two shareholders of Sino Pacific Capital are close family members of Ms. Yeung and Mr. Keng respectively, the Shareholders of the Company.

With respect to the related party transactions set forth above, our Directors confirm that these transactions were conducted on normal commercial terms or such terms that were no less favourable to our Group than those available to Independent Third Parties and were fair and reasonable and in the interests of our Shareholders as a whole.

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DIVIDENDS AND DIVIDEND POLICY

During the Track Record Period, our Company did not pay or declare any dividend. We have adopted a dividend policy (to take effect from the date of Listing), but such policy does not prescribe any pre-determined dividend pay-out ratio. The payment and the amount of any future dividend will be at the discretion of the Board and will depend on, among others, (i) the Group's results of operations, financial condition, future prospects, capital commitments, development pipeline, prevailing economic environment, contractual restrictions, capital and other reserve requirements, dividends received from the Company's subsidiaries and associates; (ii) the provisions governing the declaration and distribution of dividends as contained in our Articles and pursuant to our dividend policy; (iii) compliance with applicable laws; and any other conditions or factors which the Board deems relevant and having regard to the Directors fiduciary duties. Any final dividend for a financial year will be subject to Shareholders' approval. Our Company may declare and pay dividends by way of cash or scrip or by other means as our Board considers appropriate. Any dividend unclaimed shall be forfeited and shall revert to our Company according to the Articles. Our Board will review the dividend policy from time to time.

CONTINGENT LIABILITIES

At the end of each of the reporting period, our Group and our Company did not have any significant contingent liabilities.

LISTING EXPENSE

Our Group expects that its total Listing expenses, which are non-recurring in nature, will amount to approximately HK\$36.8 million (based on the Offer Price of HK\$0.55 per Share) being the midpoint of our indicative Offer Price range before HK\$0.5 and HK\$0.6 per Offer Share. Approximately HK\$96,000, HK\$1.9 million, HK\$1.9 million and HK\$5.1 million of the total Listing expenses has been charged to our combined statements of profit and loss and other comprehensive income for the years ended 31 March 2017, 2018 and 2019 and four months ended 31 July 2019, respectively. Our Group expects to recognise approximately HK\$14.9 million of Listing expenses in the combined statements of profit or loss and other comprehensive income for the eight months ending 31 March 2020 and to deduct the remaining approximately HK\$12.9 million of Listing expenses from our Group's reserve account. Accordingly, the financial results of our Group for the year ending 31 March 2020 are expected to be adversely affected by the estimated expenses in relation to the Listing. Such Listing expenses are a current estimate for reference only and the final amount to be charged to the profit and loss account of our Group for the year ending 31 March 2020 and the amount to be deducted from our Group's reserves account is subject to change.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which could give rise to a disclosure obligation pursuant to Rules 13.13 to 13.19 of the Listing Rules.

RECENT DEVELOPMENTS

Our Directors believe that the business of our Group is very much affected by clients' and investors' sentiments, perception, confidence and appetite amidst prevailing market conditions globally, especially Hong Kong (as our clients primarily reside in Hong Kong or the PRC). Therefore, any significant changes on their sentiments, perception, confidence and appetite for trading and investments may have an impact on our financial performance following the Track Record Period. Subsequent to the Track Record Period and up to the Latest Practicable Date, we have continued to focus on providing quality and reliable financial services to our clients in the ordinary course of business. Set out below is the summary of our recent developments since 1 April 2019 and up to the Latest Practicable Date:

Securities trading business: 53 new clients have each opened a client account with us, and we recorded an increase of our commission generated from our securities trading business for the eight months ended 30 November 2019, representing an increase of approximately 7.9% as compared to our commission income generated over the same period ended 30 November 2018); and

Placing and underwriting business: we completed 21 placing and underwriting projects in respect of IPOs (including five IPOs in which we acted as co-lead manager) over the period and revenue derived from such engagements and we recorded an increase of our commission income for the eight months ended 30 November 2019, representing an increase of approximately 54.1% as compared to our revenue generated over the same period in 2018.

Despite uncertainties brought about by changes in the economic and political environment and market conditions in Hong Kong and abroad (including turmoil brought about by recent protest movements in Hong Kong), our Directors believe that our securities trading business had not been adversely affected. In particular, the business segment recorded a 7.9% increase in amount of commission generated compared to the same period in 2018. While Hong Kong is expected to remain an important capital raising venue for prospective issuers and there continues to be a pipeline of listing applications made to the Stock Exchange, our Directors believes that our placing and underwriting business may potentially be adversely affected by market uncertainties as prospective issuers may re-evaluate their business strategies, financing options and capital needs during such periods.

Save as disclosed above and the impact of the Listing expenses, our Directors confirm that as at the date of this prospectus, there had been no material adverse change in our financial or trading position or prospects since 31 July 2019, being the date of our latest audited financial information, and there had been no event since 31 July 2019 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 prospectus.

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UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma financial information prepared in accordance with Chapter 4 of the Listing Rules and Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants is for illustrative purpose only, and is set out herein to provide prospective investors with further illustrative financial information about how the Share Offer might have affected the combined net tangible assets of our Group after the completion of the Share Offer as if the Share Offer had taken place on 31 July 2019. Because of its hypothetical nature, the unaudited pro forma financial information may not give a true picture of the financial position of our Group had the Share Offer been completed on 31 July 2019 or at any future dates. The unaudited pro forma adjusted combined net tangible assets of our Group as at 31 July 2019 is based on the audited combined net tangible assets of our Group as at 31 July 2019 as shown in the Accountants’ Report set out in Appendix II of this prospectus and the adjustments described below.

	Audited combined net tangible assets of our Group attributable to owners of our Company as at 31 July 2019 <i>HK\$’000</i> <i>Note 1</i>	Estimated net proceeds from the Share Offer <i>HK\$’000</i> <i>Note 2</i>	Unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company as at 31 July 2019 <i>HK\$’000</i>	Unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company per share as at 31 July 2019 <i>Note 3</i>
Based on the Offer Price				
HK\$0.6 Per Offer Share	196,800	121,511	318,311	0.32
Based on the Placing Price				
HK\$0.5 Per Share	196,800	97,763	294,563	0.29

Notes:

1. The audited combined net tangible assets of our Group attributable to owners of our Company as at 31 July 2019 is based on the combined net assets of our Group of HK\$199,535,000 less the intangible assets of our Group of HK\$2,735,000 as at 31 July 2019, as extracted from the Accountants’ Report as set out in Appendix I to this prospectus.

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2. The estimated net proceeds from the Share Offer are based on 250,000,000 Offer Shares to be issued at an Offer Price of HK\$0.5 to 0.6 per Offer Share, after deduction of the estimated underwriting fees and related expenses expected to be incurred by our Group subsequent to 31 July 2019 and does not take into account of any Shares which may be allotted and issued pursuant to the exercise of Over-allotment Option and any Shares which may be allotted and issued or repurchase Shares referred to the paragraphs headed “General mandate to issue Shares” or “General mandate to repurchase Shares” under the section headed “Share capital” in this prospectus, as the case may be.
3. The unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company as at 31 July 2019 per Share is calculated based on 1,000,000,000 Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue assumed to be on 31 July 2019. It does not take into account of any Shares which may be allotted and issued pursuant to the exercise of Over-allotment Option and any Shares which may be allotted and issued or repurchase Shares referred to in the paragraphs headed “General mandate to issue Shares” or “General mandate to repurchase Shares” under the section headed “Share capital” in this prospectus, as the case may be.
4. No adjustment has been made to the unadjusted pro forma adjusted combined net tangible assets of the Group attributable to owners of our Company as of 31 July 2019 to reflect any trading result or other transaction of our Group entered into subsequent to 31 July 2019.

EVENTS AFTER THE BALANCE SHEET DATE

For details of events after 31 July 2019, being the date to which the latest audited financial information was prepared, see note 38 of the Accountants’ Report contained in Appendix I to this prospectus.

FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to our Group. The major classes of financial assets of our Group are cash and short term deposits and trade and other receivables.

In order to minimise the credit risk on accounts receivable, the management of the Group compiles the credit and risk management policies, to approve credit limits and to determine any debt recovery action on those delinquent receivables. In addition, the management of the Group review the recoverable amount of accounts receivable and the receivables from margin clients are secured by client’s pledged securities which are equity and debt securities listed in Hong Kong and overseas.

Margin calls are made when the trades of margin clients exceed their credit limits or a shortfall existed after taking into the account the securities collateral. Any such excess is required to be made good within the next trading day. Failure to meet margin calls may result in the liquidation of the client’s position.

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We seek to maintain strict control over our outstanding receivables. The credit risk on bank balances is limited because the counterparties are with high credit-ratings assigned by international credit-rating agencies. The credit risk for accounts receivable from clearing house and brokers is considered as not high taking into account the good market reputations and high credit ratings of the counterparties.

Liquidity risk management

In the management of the liquidity risk, we monitor and maintains a level of cash and cash equivalents deemed adequate by the management to finance our operations and mitigate the effects of fluctuations in cash flows.

Capital risk management

We manage our capital to ensure that we will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. Our overall strategy remains unchanged through the Track Record Period.

The capital structure of our Group consists of debt, which includes bank borrowings, and equity attributable to owners of the Group, comprising issued share capital, other reserve and retained earnings.

Our Directors review the capital structure annually. As part of this review, our Directors assess the annual budget prepared by management of the Group. Based on the proposed annual budget, our Directors consider the cost of capital and the risks associated with each class of capital. Our Directors also balance its overall capital structure through new share issues and the issue of new debt. The Group's overall strategy remains unchanged throughout the Track Record Periods.

Our operating subsidiary, Sinomax Securities, is licensed to carry out regulated activities in Hong Kong and is regulated by the SFC. It is required to comply with the minimum capital requirements according to the FRR. Management monitors, on a daily basis, the group entity liquid capital to ensure it meets the minimum liquid capital requirement in accordance with the FRR. The group entity has been in compliance with the capital requirement imposed by the FRR throughout the Track Record Period.

FUTURE PLANS AND USE OF PROCEEDS

BUSINESS OBJECTIVE AND STRATEGIES

Our business objective is to become one of the leading financial services providers in Hong Kong by strengthening our securities trading services (including brokerage services and margin financing services) and placing and underwriting services, and expanding our service offerings.

For a detailed description of our business strategies, please refer to the section headed “Business – Business strategies” in this prospectus.

IMPLEMENTATION PLAN

Our Directors have drawn up an implementation plan for the period up to 30 September 2021 with a view to achieving our business objective. Details of the implementation plan and expected timetable for implementation of the plan in relation to items requiring us to make material financial commitments are summarised below.

Investors should note that the implementation plan is formulated on the bases and assumptions referred to in the paragraph headed “Bases and key assumptions” set out in this section of the prospectus. These bases and assumptions are inherently subject to uncertainties and unpredictable factors, in particular the risk factors set out in the section headed “Risk factors” in this prospectus. There is no assurance that our plans will materialise in accordance with our expected time frame or that our objectives will be accomplished. While the implementation plan may be affected by unforeseeable factors and matters outside our control, we will use our best endeavours to anticipate and pre-empt such factors and matters so as to minimise any disruptions to the implementation of our plan, to the extent possible.

	From the Latest Practicable Date to 31 March 2020 HK\$'000	For the six months ending 30 September 2020 HK\$'000	For the six months ending 31 March 2021 HK\$'000	For the six months ending 30 September 2021 HK\$'000	Total amount to be funded by the net proceeds of the Share Offer HK\$'000
(1) Expansion of our placing and underwriting business	30,000	–	–	–	30,000
(2) Funding for margin financing business	11,288	–	–	–	11,288
(3) Establishment and renovation of a new office					
– new office rental cost	1,584	1,980	2,376	2,376	8,316
– renovation of the new office	3,500	1,500	–	–	5,000
– acquisition of office equipment and IT equipment	4,009	137	–	–	4,146
Sub-total of (3)	9,093	3,617	2,376	2,376	17,462

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	From the Latest Practicable Date to 31 March 2020 HK\$'000	For the six months ending 30 September 2020 HK\$'000	For the six months ending 31 March 2021 HK\$'000	For the six months ending 30 September 2021 HK\$'000	Total amount to be funded by the net proceeds of the Share Offer HK\$'000
(4) Expansion of workforce					
– hiring of one responsible officer with experience in placing and underwriting activities	–	480	480	480	1,440
– hiring of two research analysts with experience in equity capital markets	–	600	600	600	1,800
– recruitment of discretionary account management team (including one responsible officer and two AEs)	–	1,500	1,500	1,500	4,500
– hiring of back office staff to support the expansion of our business	–	2,190	2,190	2,190	6,570
Sub-total	–	4,770	4,770	4,770	14,310
(5) Enhancement of IT systems					
– upgrading of front office and back office trading systems	2,020	1,098	1,098	1,098	5,314
– subscription to a new integrated system comprising portfolio management and risk management functions	249.6	280.8	280.8	280.8	1,092
– subscription to a new clients' relationship management system	176.3	177.8	177.8	177.8	710
– subscription to a new business continuity planning and co-location service	100	120	120	120	460
– subscription to Bloomberg Terminal for our asset management and placing and underwriting services	–	806	807	812	2,424
Sub-total	2,546	2,482	2,483	2,488	10,000
(6) Promotion and marketing					
– engagement of a marketing services provider to arrange marketing activities to promote our brand image and services	–	6,000	2,000	–	8,000
(7) Working capital	2,340	2,400	2,400	2,400	9,540
Total	55,267	19,269	14,029	12,034	100,600

REASONS FOR THE LISTING AND THE SHARE OFFER

Our Directors believe which is also supported by the Ipsos Report, that there would be an overall upward trend in the financial services market in Hong Kong, despite cyclical fluctuations in light of the macroeconomic and political conditions, such as the China-United States trade war and local political instability in Hong Kong. In particular, the latest industry data shows that the Stock Exchange remains as one of the most popular stock exchanges for capital raising in the world and was ranked first again globally in terms of IPO equity funds raised in 2019. According to the Ipsos Report, the total number of new listings for the year ended 31 December 2019 is 197, with a historical high of 181 new Main Board listings, raising a total of approximately HK\$312.9 billion. Such prominent results were driven by strong performance in the second half of the year (despite the postpone of a number of IPOs in the third quarter of 2019), contributed by two mega-size deals namely Alibaba's US\$11 billion secondary listing and the listing of Anheuser-Busch InBev (Budweiser Brewing Company) which raised approximately US\$5 billion, as well as other debutants. Further, it is observed that there continues to be a strong pipeline of listing applications being processed and a number of various recent IPOs were highly over-subscribed or performed strongly on debut. Our Directors believe that this demonstrates that, during such uncertain times, businesses continue to navigate and structure their business strategies as well as capitalize on potential opportunities from raising capital in Hong Kong, which is one of the most active capital markets in the world.

The Ipsos Report observed that, historically, financial and political crisis in Hong Kong tend to have a negative impact on the financial markets which are often short-term and the market, being a resilient one, will eventually recover and move upwards. As such, it is Ipsos's view that, despite market sentiment in Hong Kong for 2020 may possibly be affected by political, social and economic uncertainties, the Hong Kong IPO market is expected to remain competitive, which may be driven by the following favorable factors:

- (i) inspired by the successful secondary listing of Alibaba, more PRC-based and U.S.-listed technology companies may be spurred to consider a second listing in Hong Kong and thus, a number of mega-sized listings of overseas issuers and secondary listings are expected in 2020;
- (ii) the listings of new economy companies are expected to be a key driver of the Hong Kong IPO market due to the recent reform in the listing regime by the Stock Exchange, which is expected to result in an increasing number of listings from prominent Chinese new economy companies, including those with weighted voting rights structures, biotech businesses and international companies; and
- (iii) Hong Kong is still regarded as one of the most liquid and developed capital markets in the world and will continue to be an important financial hub and continue to develop under favorable PRC policies and domestic policy initiatives. Potential issuers continue to recognise the Stock Exchange as a stable fund-raising platform due to the well-established infrastructure and investor base.

FUTURE PLANS AND USE OF PROCEEDS

On the basis of the above, our Directors still hold a positive market outlook despite the current economic situations and uncertainties caused by macroeconomic and political conditions such as China-United States trade war and local political instability in Hong Kong. Our Directors also consider that the entering of the “phase one” trade deal between the United States and China which is also expected to suspend or defuse a tit-for-tat dispute between the two sides, will be positive for the market. With this in mind, we intend to continue to capitalize on valuable opportunities, leverage on our competitive strengths and enhance our market position, notwithstanding temporal effects of current market conditions.

Our Directors believe the Listing will (a) enhance our corporate profile and brand image; (b) enable our Group to access capital markets to finance our future business development and growth; (c) enhance our overall market exposure and strengthen our competitiveness; (d) enhance our corporate governance and the financial and operational transparency of our business, and hence increase the confidence of our existing and potential clients; and (e) help our Group to attract and retain employees by providing incentive or rewards through our Share Option Scheme.

Our Directors believe that the net proceeds from the Share Offer will provide us with additional capital to help us achieve our business strategies and objectives, as follows:

(1) Enhancing our capital resources for expansion of our placing and underwriting business

As supported by the Ipsos Report, our Directors believe that there will be increasing business opportunities for placing and underwriting services for both IPOs and non-IPO fundraising activities. In pursuing our business objectives, we intend to take more leading roles when acting as underwriter for IPOs and other major fundraising activities, such as rights issues and open offers of companies listed on the Stock Exchange.

The amount of underwriting commitment that we may undertake depends on the availability of our capital resources and is constrained by the minimum liquid capital requirement prescribed under the FRR. According to the FRR, the amount of any net underwriting commitment is included in the calculation of ranking liabilities, and the percentage of net underwriting commitment that should be included in our Company’s ranking liabilities is 50% of the haircut percentage stipulated in Table 1, Schedule 2 of the FRR.

During the Track Record Period, our Group’s underwriting commitment was calculated as follows:

$$\text{Underwriting commitment} = \frac{(\text{Liquid capital} - \text{Required liquid capital})}{(50\% \times \text{Haircut percentage})}$$

FUTURE PLANS AND USE OF PROCEEDS

where:

“**underwriting commitment**” means the total cost of subscribing for or purchasing securities underwritten or sub-underwritten (or further sub-underwritten) by Sinomax Securities;

“**liquid capital**” means the amount by which its liquid assets exceeds its ranking liabilities. In this regard, “**ranking liabilities**” include, *inter alia*, up to 50% of the Haircut Percentage (as defined under section 2C of the FRR) in relation to securities multiplied by its net underwriting commitment; and “liquid capital” constituted by account receivable arising from margin loans must be discounted by, *inter alia*, haircut amounts or prescribed percentages under the FRR in respect of liquid and illiquid collateral posted as security to secure repayment of the margin loan;

“**required liquid capital**” means the minimum amount of required liquid capital stipulated in Table 2, Schedule 1 of the FRR; and

“**haircut percentage**” means the haircut percentage stipulated in Table 1, Schedule 2 of the FRR.

The Group’s maximum underwriting commitment was HK\$1,131,780,000 during the Track Record Period.

During the Track Record Period, our Group’s ability to underwrite was limited by the amount of liquid capital maintained by us and as such, we were not capable of undertaking a high percentage of underwriting commitment and generally did not take leading roles in various underwriting syndicates.

The net proceeds from the Share Offer will increase our Group’s liquid capital so that we will be able to (a) take up a higher percentage of underwriting commitment and more leading roles, such as lead co-ordinator and/or bookrunner, within an underwriting syndicate including some more prominent and sizable IPOs; (b) take up underwriting commitments of projects with a larger fundraising scale; (c) expand our placing and underwriting business by taking up more placing and underwriting opportunities at the same time; and (d) take up the role as a sole underwriter of a fundraising project without reliance on sub-underwriters in the syndication process. To capture such business opportunities from time to time, our Group needs to earmark sufficient financial resources before committing to any underwriting obligations under these transactions. The expansion of our placing and underwriting business depends on the availability of our capital resources and is limited by our liquid capital and our level of bank borrowings from time to time, in view of the minimum liquid capital requirement under the FRR.

FUTURE PLANS AND USE OF PROCEEDS

The table below illustrates how the use of net proceeds will impact on our Group's Liquid Capital and the maximum size of underwriting commitment our Company will be able to undertake at a time:

		<i>HK\$'000</i>
Use of proceeds	A	100,600
Liquid capital as at 31 July 2019	B	172,767
Total liquid capital after listing	C=A+B	273,367
Minimum required liquid capital	D	3,000
Excess liquid capital	E=C-D	270,367
Maximum underwriting commitment on a one-off basis	E/(50% x 30%) ^(Note)	1,802,447

Note: 50% refers to the regulatory buffer and 30% refers to the haircut for FRR purpose.

(2) Enhancing our capital resources for margin financing services

Our Directors believe, as supported by the Ipsos Report, that there will be increasing demand for margin financing services in Hong Kong. In recent years, there has been robust growth in the number of active margin clients in Hong Kong which grew at a CAGR of approximately 25.2%, and in the amounts receivable from margin clients in Hong Kong grew at a CAGR of approximately 16.1%. Such robust growth is driven by a number of factors including, without limitation, the following:

- (a) Hong Kong's central role in the PRC government's plan to promote the development of the Greater Bay Area has driven, and is expected to continue to drive, demand for financial services, including equity investments and financing, which will likely lead to an active equity market;
- (b) growing interests from southbound investors in the Hong Kong stock market because of the development of the China Connect;
- (c) increasing level of disposable income in the PRC and Hong Kong, coupled with an increasing number of PRC investors seeking to diversify their investments offshore;
- (d) the leading position of the Stock Exchange as one of the most active stock exchanges globally for the listing of securities. According to the Ipsos Report,
 - (i) the Stock Exchange recorded the greatest number of IPOs globally and attracted large and prominent deals such as China Tower Corporation Limited (HKEX stock code: 788) and Xiaomi Corporation (HKEX stock code: 1810). This indicates that there may likely be a corresponding demand for IPO financing; and

FUTURE PLANS AND USE OF PROCEEDS

- (ii) the total securities market turnover of the Stock Exchange is expected to continue to grow in the near future. The expected increase in total securities market turnover may lead to an increase in the demand for brokerage services, which could in turn stimulate the demand for margin financing services to support securities trading on a leveraged basis.
- (e) the Stock Exchange's new listing regime also broadened the types of companies eligible for listing to include pre-revenue biotech companies, companies with weighted voting right structures as well as PRC and international companies that wish to undergo secondary listing in Hong Kong. It is expected that this may broaden investment opportunities for equity subscription to a wider range of issuers who may determine to raise funds in Hong Kong, which in result will stimulate demand for IPO and margin financing services.

In May 2019, our Group conducted a customer survey (“**2019 Customer Survey**”) and received over 160 responses from our active clients. Approximately 72.5% of the respondents indicated that they would support a proposed plan to increase our financial resources or improve liquidity position to expand our margin financing services.

During the Track Record Period, our allowable margin financing was calculated as follows:

$$\text{Allowable margin financing} = \frac{\text{Amount receivable from margin clients}}{\text{+ Bank balance}}$$

where:

“**allowable margin financing**” means the amount of margin loans which Sinomax Securities may make to margin clients subject to the restraints imposed by the FRR;

“**amount receivable from margin clients**” represents the total amount of margin loans granted to margin clients during the relevant period; and

“**bank balance**” means the remaining cash balance of Sinomax Securities at the relevant time.

The Group's maximum allowable margin financing was HK\$213,430,000 during the Track Record Period.

The expansion of our margin financing business depends on the availability of our capital resources and is limited by the amount of liquid and equity capital maintained by us from time to time. Our liquidity level is subject to the restraints imposed by the FRR and margin loans-to-capital ratio requirements prescribed by the SFC.

FUTURE PLANS AND USE OF PROCEEDS

The table below illustrates how the use of net proceeds will impact on our Group's maximum allowable margin financing:

		<i>HK\$'000</i>
Allowable margin financing as at 31 July 2019	F	198,024
Use of proceeds – use of margin financing portion	G	41,288
Maximum margin financing on a one-off basis	F + G	239,312

For these reasons, our Directors believe that the Share Offer would enable our Group to have a higher level of funds and liquid capital for offering more margin financing services to our existing clients, including financing their purchase of securities in IPOs and secondary offering which is complementary to our fast-growing placing and underwriting business, as well as to new clients, such as China Connect clients and frequent traders, without materially affecting our ability to satisfy statutory capital requirements. The expansion of our financial resources is expected to enhance our capability in terms of size and volume of margin loans we may extend to our clients. As such, more interest income is expected to be generated for the benefit of our Group.

(3) Development of China Connect business

The China Connect offers a significant opportunity for the growth of the Hong Kong securities market. It provides a feasible, controllable and expandable channel for investors to gain mutual market access to the recognised stock markets in Hong Kong and the PRC. It is expected that the China Connect will structurally uplift Hong Kong's market liquidity by attracting both PRC and overseas investors. With a view to developing the China Connect business, we intend to register Sinomax Securities as a China Connect Exchange Participant. To be eligible, in addition to being a HKEX Participant, we must satisfy certain IT capability, risk management and other requirements as may be specified by the HKEX from time to time. For this purpose, we intend to use the net proceeds of the Share Offer to:

- (a) install and upgrade our front/back office systems to cater for the China Connect business;
- (b) upgrade our line/throttle to cater for additional trading volume;
- (c) enhance our risk management systems in relation to the China Connect business; and
- (d) promote the offer of our China Connect business by advertising.

FUTURE PLANS AND USE OF PROCEEDS

We believe that the China Connect business would be beneficial to us as it would:

- (a) raise our profile;
 - (b) expand our service offerings to our clients;
 - (c) expand our client base;
 - (d) bring us additional brokerage income; and
 - (e) provide a channel for procuring clients for our margin financing business.
- (4) Establishment and renovation of a new office, expansion of our placing and underwriting team, establishment of a discretionary account management team, and recruitment of research analysts and other supporting staff**

According to the Ipsos Report, competition in the licensed securities and futures intermediaries industry in Hong Kong will remain vigorous in the near future. The China Connect has triggered a sudden surge in demand in securities trading services in Hong Kong. The robust equity market has also attracted more participants in the market. To stay competitive in the market and capitalise on future opportunities, we intend to further strengthen our position in the financial services industry in Hong Kong by expanding and enhancing our service capabilities and diversity. For further details, please refer to the section headed “Business – Business strategies” of this prospectus.

According to the 2019 Customer Survey:

- (a) approximately 40% of the respondents indicated that they would be supportive of broadening of our investment advisory services, to include the issuance of research reports and periodic updates (covering, among others, macroeconomic analysis, investment strategies and products across industry sectors) and/or attending investment seminars, training or events if these were to be made available to them by us; and
- (b) approximately 45% of the respondents indicated that they would be interested in learning more about and/or using discretionary account management services if such services were to be made available.

Further, our placing and underwriting business has experienced robust growth during the Track Record Period, which was driven by the strong performance in the equity market in Hong Kong in recent years and an increase in total equity funds raised in Hong Kong.

FUTURE PLANS AND USE OF PROCEEDS

In order to better serve our clients and capture more business opportunities, our Group plans to expand our placing and underwriting team, establish a discretionary account management team, and recruit research analysts and other supporting staff. The current office, which our Group has occupied since February 2017 without undergoing any material renovations since, has an area of approximately 2,818 square feet and as at the Latest Practicable Date housed 16 staff and our Group's equipment and facilities. To cope with the proposed increase in headcount and bearing in mind the SFC's requirements regarding suitable office premises for a licensed corporation to conduct its regulated activities, our Directors decided to establish a new office with a view to pursuing its business expansion strategy. The new office, capable of housing up to 30 staff, will initially house 12 newly recruited staff (comprising responsible officers, research analysts and AEs for the new placing and underwriting team and new discretionary account management team as well as additional back office staff (including a compliance manager, accounts manager, accountant, IT manager, risk management officer and settlement officer)) to support the expanded operations. It is expected that all the 12 new staff would be recruited by April 2020, and would be funded from the net proceeds of the Share Offer.

While the new office has the capacity to house up to an additional 18 staff, we do not currently have plans to recruit such additional staff for present purposes. To make effective use of the remaining office space, part of the new office would be used to provide for (i) conference rooms for client meetings; (ii) space for clients to carry out securities trading; and (iii) space for other back office functions, with a view of enhancing client perception and experience. The new office will also serve as a temporary back-up workplace in the event of any unpredicted disruptions affecting the use of our current office.

Our Directors consider that the establishment of a new office with designed layout of furniture, equipment and facilities will (a) help to recruit and retain employees and talent; (b) enhance the reputation and presence of our Group as well as improve client perception and experience; (c) support our Group's proposed business expansions (including increasing headcount for equity desks and research teams, which will enable our Group to provide more quality and value-added services to end-clients); and (d) provide a temporary back-up workplace in case there is any disruption to our Group's current office. Having considered its costs and benefits, our Directors are of the view that the establishment of a new office is beneficial to our Group and our Shareholders as a whole.

FUTURE PLANS AND USE OF PROCEEDS

The table below sets forth the quantitative cost and benefit analysis of establishment of a new office for the five years ending 31 March 2025 based on our Group's current expansion plan:

	For the year ending 31 March				
	2021	2022	2023	2024	2025
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Benefit (Additional revenue expected to be generated from the new office)					
Revenue from new Equity capital market team ^(Note 1)	7,849	19,623	20,898	22,256	23,703
Revenue from new discretionary account management team ^(Note 2)	600	6,000	6,000	6,000	6,000
Cost (Additional costs and expenses expected to incurred from the new office)					
Commission ^(Note 3)	(2,355)	(5,887)	(6,269)	(6,677)	(7,111)
Staff costs ^(Note 4)	(9,756)	(10,195)	(10,656)	(11,083)	(11,223)
Office rental ^(Note 5)	(4,975)	(4,756)	(4,525)	(4,975)	(4,756)
Depreciation ^(Note 6)	(2,874)	(2,874)	(2,874)	(274)	(274)
Profit (loss) before taxation					
Total:	<u>(11,511)</u>	<u>1,911</u>	<u>2,573</u>	<u>5,248</u>	<u>6,339</u>

Notes:

- (1) It is expected that our Group's revenue will increase by 150% in the financial year ended 31 March 2022 due to the new business that is expected to be brought by the expansion of the placing and underwriting team. In this regard, our Group has identified a responsible officer candidate who brought more than HK\$20 million of revenue to his employer in each of the immediately preceding two years. For the sake of prudence, our Group used the revenue amount contributed by the existing responsible officer in his initial year (i.e. financial year ended 2017) of joining our Group in the above analysis in respect of the revenue expected to be generated for the Group for the financial year ended 31 March 2021.

From the financial year ended 31 March 2023 to the financial year ended 31 March 2025, the increase in revenue is calculated based on the expected growth rate of Hong Kong's placing and underwriting services (i.e. CAGR 6.5%) according to Ipsos.

- (2) Our Group has identified a responsible officer candidate with a team of licensed representatives who have two existing clients which are expected to allocate approximately HK\$300 million for discretionary accounts management by the team. While our Group is expected to charge an initial set-up fee as well as a performance fee based on increase in net asset value agreed with our client, for the sake of prudence, the relevant revenue represented only includes a 2% management fee to be charged. Further, our Group applied a 90% discount for the initial year to account for, without limitation, the time required for team's clients to transfer to our Group, conducting KYC procedures by our compliance department and internal training.

FUTURE PLANS AND USE OF PROCEEDS

- (3) Commission refers to commission paid to staff who introduce equity capital market projects to us (similar to existing practice with executive Director of equity capital market department).
- (4) Staff costs include the costs of headcount for new equity capital market team (comprising a responsible officer and two research analysts), costs of headcount for new discretionary account management team (comprising a responsible officer and two assistant AEs) as well as additional back office staff (including a compliance director, accounts manager, accountant, IT manager, risk management officer and settlement officer) for the enlarged group. Other than the responsible officer of the equity capital market team (who would be remunerated largely from commissions), the staff costs are calculated at an expected growth rate of 5% per annum over the relevant period.
- (5) Costs on office rental include depreciation of lease (with a monthly rental payment of approximately HK\$396,000 per month), together with interest expenses on leased liabilities (office rental). Subject to our implementation plan, for office rental, approximately HK\$1,584,000, HK\$4,356,000 and HK\$2,376,000 from the net proceeds of the Share Offer will be used for the years ended 31 March 2020, 2021 and 2022, respectively; for renovation of the new office, approximately HK\$3,500,000 and HK\$1,500,000 from the net proceeds of the Share Offer will be used for the years ended 31 March 2020 and 2021, respectively.
- (6) Depreciation includes depreciation on leasehold improvements, computer, office equipment, fixtures and furniture. Approximately HK\$2.8 million from the net proceeds of the Share Offer will be used for purchasing computers, which will be fully depreciated after three years based on our Group's accounting policies for depreciation, and approximately HK\$1.4 million of the use of proceeds will be used for purchasing furniture, fixtures and office equipment for the new office, which will be depreciated over five years based on our Group's accounting policies for depreciation.

On the basis of the above analysis, it is expected that despite initial set up costs, the new office will become sustainable and profitable in the mid-to-longer term whilst at the same time enabling our Group to provide further intangible benefits (including the ability to provide more diversified and value-added services, such as research support). In light of the foregoing, our Directors confirm that the expansion plans are determined following due consideration of the costs and benefits involved, based on the current information available to our Directors, as well as the prevailing market conditions and possible levels of demand for our Group's services.

FUTURE PLANS AND USE OF PROCEEDS

For the above reasons, we intend to use the net proceeds from the Share Offer for:

- (a) the establishment of a new office, which will incur expenditures such as rental deposit, rental costs, renovation costs, costs relating to the purchase of office equipment, IT equipment, fixtures and furniture, and other on-going maintenance costs; and
- (b) the increase in headcount to better serve our clients and expand our service offerings to include the offering of China Connect services and discretionary account management service. This would involve:
 - (i) the hiring of a responsible officer with type 1 (dealing in securities) licence under the SFO and who has experience in supervising placing and underwriting activities, as well as industry networks, so as to effectively handle the development of our China Connect business and the growing demand for our placing and underwriting services;
 - (ii) the establishment of a discretionary account management team to be headed by a responsible officer with over ten years of experience in equity markets and type 1 (dealing in securities) and type 9 (asset management) licences under the SFO. This team head will be assisted by two assistant AEs with over five years of experience in equity markets and type 1 (dealing in securities) and type 9 (asset management) licences under the SFO. It is proposed that this new team will be responsible for offering discretionary account management services (including making investment decisions, conducting valuation on managed portfolio, reporting, and other services typically provided in respect of such services) to our clients;
 - (iii) the hiring of two research analysts with type 1 (dealing in securities) and type 4 (advising on securities) licences under the SFO, so as to conduct equity research to support the investment decision-making process of the discretionary account management team and support expected growth in the placing and underwriting business; and
 - (iv) the hiring of additional supporting staff, including a compliance director, account manager, accountant, IT manager, risk management officer and settlement officer, to support the expansion of our business activities.

(5) Enhancement of IT systems

According to the Ipsos Report, an increasing number of licensed brokerage firms are offering online trading platforms and these firms compete in terms of features, speed of trade execution and security of such trading platforms. As such, brokerage firms that offer online trading systems with better user experiences as well as a higher level of cyber security are usually more competitive in the market.

Approximately 89.6% of the respondents to the 2019 Customer Survey indicated that they would support the Group's proposed plans to upgrade or further customise our trading platform and IT infrastructure and/or capability in the future in order to enhance our efficiency, security, functionality and/or user-friendliness.

In order to keep ourselves competitive in the market and to facilitate our proposed commencement of our China Connect services, we intend to (i) upgrade and enhance both of our front office and back office trading systems (including our online trading platform and mobile application); (ii) adopt a new integrated system comprising both portfolio management and risk management functions, with features including managing security, redundancy, disaster recovery and database administration as well as providing market data (such as corporate actions, dividend tables and volatility datasets); (iii) adopt a new clients' relationship management system with the aim of enhancing client satisfaction; (iv) adopt a new business continuity planning service (which includes data management and cloud storage archiving) and co-location service as a back-up workplace in case there is any disruption to our office; and (v) subscribe to the Bloomberg Terminal to enhance our analytical and research capabilities to support our asset management and placing and underwriting services.

(6) Promotion and marketing

The number of HKEX Participants increased at a CAGR of approximately 4.4% from 2013 to 2019, intensifying the level of competition in the industry. With the presence of a large number of brokerage service providers in the market and the absence of definitive features for prospective clients to compare their offerings, investors usually select service providers based on their reputation and level of reliability. It is crucial for brokerage service providers to maintain a high level of creditability and to have an easily recognisable brand in order to keep our existing clients and to attract new clients. During their course of widening the client base, brokerage service providers utilise various marketing strategies, which include holding investment seminars and placing advertisements through various media channels to increase brand awareness.

Leveraging on our established reputation within the financial services industry, our Directors believe that further promotion and marketing through engaging in marketing activities (including advertising through various media and channels) and the Listing could help us promote our services (in particular our proposed new China Connect services), and attract new clients, which as a result broadens our client base.

FUTURE PLANS AND USE OF PROCEEDS

USE OF PROCEEDS

We estimate that the aggregate net proceeds from the Share Offer (after deducting the underwriting commission and other estimated expenses payable by us in connection to the Share Offer), assuming an Offer Price of HK\$0.55 per Offer Share, being the mid-point of the indicative Offer Price range between HK\$0.5 and HK\$0.6 per Offer Share, will be approximately HK\$100.6 million, assuming that the Over-allotment Option is not exercised.

We intend to apply the net proceeds from the Share Offer in the following manner:

- (a) approximately HK\$30.0 million (representing approximately 29.8% of the net proceeds from the Share Offer) will be used for the expansion of our placing and underwriting business;
- (b) approximately HK\$11.3 million (representing approximately 11.2% of the net proceeds from the Share Offer) will be used for providing additional funding to expand our margin book in our margin financing business;
- (c) approximately HK\$17.5 million (representing approximately 17.4% of the net proceeds from the Share Offer) will be used for the establishment and renovation of a new office;
- (d) approximately HK\$14.3 million (representing approximately 14.2% of the net proceeds from the Share Offer) will be used for expansion of our placing and underwriting team, establishment of a discretionary account management team, and hiring of research analysts and other supporting staff;
- (e) approximately HK\$10.0 million (representing approximately 9.9% of the net proceeds from the Share Offer) will be used for enhancement of IT systems;
- (f) approximately HK\$8.0 million (representing approximately 8.0% of the net proceeds from the Share Offer) will be used for promotion and marketing purposes; and
- (g) the remaining balance of approximately HK\$9.5 million (representing approximately 9.5% of the net proceeds from the Share Offer) will be used for general working capital and other general corporate purposes.

If the Offer Price is fixed at the high-end of the indicative Offer Price range, being HK\$0.6 per Share, the net proceeds we receive from the Share Offer will increase by approximately HK\$11.9 million, assuming the Over-allotment Option is not exercised. We intend to apply the additional net proceeds for the above purposes on a pro-rata basis.

FUTURE PLANS AND USE OF PROCEEDS

If the Offer Price is set at the low-end of the indicative Offer Price range, being HK\$0.5 per Share, the net proceeds we receive from the Share Offer will decrease by approximately HK\$11.9 million, assuming the Over-allotment Option is not exercised. We intend to reduce the net proceeds for the above purposes on a pro-rata basis.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by the applicable laws and regulations, we intend to deposit the net proceeds into short-term deposits with authorised financial institutions and/or licensed banks in Hong Kong so long as it is deemed to be in the best interests of the Group.

The possible use of proceeds outlined in this section may change in light of our evolving business needs and conditions and regulatory requirements. In the event of any material modification to the use of proceeds as described above, we will issue an announcement and make appropriate disclosure as required under the Listing Rules.

BASES AND KEY ASSUMPTIONS

We have adopted the following principal assumptions in the preparation of our future plans up to 30 September 2021:

- (i) the Listing and Share Offer will be completed in accordance with the terms as described in the section headed “Structure and conditions of the Share Offer” in this prospectus;
- (ii) our Group will be able to maintain and renew/obtain all relevant licences, permits and qualifications required for our businesses activities, including the China Connect services;
- (iii) there will be no material adverse change in the business development requirements during the period resulting in changes in the political, legal, fiscal or economic conditions and environment in Hong Kong or in any other places in which any member of our Group carries on its business or will carry on its business;
- (iv) our Group will have sufficient financial resources to meet our planned capital expenditure and business development requirements during the period to which our business objectives relate;
- (v) there will be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of our Group or cause substantial loss, damage or destruction to our properties or facilities;
- (vi) there will be no material adverse changes in the bases or rates of taxation and duties in Hong Kong;
- (vii) our Group is able to maintain our relationships with our existing major clients, with the level of business received from such clients broadly maintained, and expand our client portfolio as planned;

FUTURE PLANS AND USE OF PROCEEDS

- (viii) there will be no material differences between the actual capital requirements for implementing each of the above plans and the amounts currently estimated by our Group;
- (ix) our Group will be able to retain our Directors, key management AEs and staff and/or recruit key management personnel and additional staff as needed in the development of our existing and future business;
- (x) our Group will not be materially adversely affected by any risk factors set out in the section headed “Risk factors” in this prospectus;
- (xi) there will be no material changes in existing laws and regulations, or other governmental policies relating to our Group, or in the political, economic, or market conditions in which any member of our Group operates; and
- (xii) our Group will be able to continue our existing operations in substantially the same manner as they were carried out during the Track Record Period and we will also be able to carry out our development plans without material disruptions.

UNDERWRITING

UNDERWRITERS

Joint Bookrunners and Joint Lead Managers

BOCOM International Securities Limited
China Everbright Securities (HK) Limited
China Investment Securities International Brokerage Limited
Haitong International Securities Company Limited
Kingsway Financial Services Group Limited
Vinc Capital Limited

Co-Managers

Livermore Holdings Limited
Valuable Capital Limited
Sinomax Securities Limited
China Tonghai Securities Limited

Public Offer Underwriters

BOCOM International Securities Limited
China Everbright Securities (HK) Limited
China Investment Securities International Brokerage Limited
China Tonghai Securities Limited
Haitong International Securities Company Limited
Kingsway Financial Services Group Limited
Livermore Holdings Limited
Sinomax Securities Limited
Valuable Capital Limited
Vinc Capital Limited

Placing Underwriters

BOCOM International Securities Limited
China Everbright Securities (HK) Limited
China Investment Securities International Brokerage Limited
China Tonghai Securities Limited
Haitong International Securities Company Limited
Kingsway Financial Services Group Limited
Livermore Holdings Limited
Sinomax Securities Limited
Valuable Capital Limited
Vinc Capital Limited

UNDERWRITING ARRANGEMENTS

This prospectus is published solely in connection with the Share Offer. The Share Offer is fully underwritten by the Underwriters on a conditional basis.

The Public Offer Underwriting Agreement

The Public Offer Underwriting Agreement was entered into on 30 January 2020. Pursuant to the Public Offer Underwriting Agreement, our Company has agreed to initially offer 25,000,000 Public Offer Shares (subject to reallocation) for subscription by members of the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms at the Offer Price.

Subject to, among other conditions, (i) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue or to be issued pursuant to the Share Offer or otherwise as mentioned in this prospectus and such listing and permission not subsequently being revoked and; (ii) certain other conditions set out in the Public Offer Underwriting Agreement being satisfied or waived on or before the dates and times as specified therein or such other dates as the Joint Lead Managers (also in their capacity as Underwriters) may agree (but in any event not later than the 30th day after the date of this prospectus), the Public Offer Underwriters have severally agreed to subscribe or procure subscribers for their respective applicable proportions of the Public Offer Shares being offered which are not taken up under the Public Offer on the terms and conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement.

The Public Offer Underwriting Agreement is conditional on and subject to the Placing Underwriting Agreement having been executed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for termination

The obligations of the Public Offer Underwriters to subscribe or procure subscribers for the Public Offer Shares under the Public Offer Underwriting Agreement are subject to termination. The Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) have the right, in their sole and absolute discretion, by notice in writing to the Company, to terminate the obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement if it see fit upon the occurrence of but not limited to, any of the following events at any time at or before 8:00 a.m. (Hong Kong time) on the Listing Date:

UNDERWRITING

- (a) there has come to the notice of the Joint Lead Managers:
- (i) that any statement contained in the Prospectus or the Application Forms or the Formal Notice or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Public Offer (including any supplement or amendment thereto), considered by the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) in their sole and reasonable opinion to be material in relation to the Share Offer, was, when the same was issued, or has become, untrue, incorrect or misleading in any material respect or that any forecasts, expressions of opinion, intention or expectation expressed in the Prospectus, the Application Forms or the Formal Notice or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Public Offer (including any supplement or amendment thereto), was, when it was made, not fairly and honestly made and made on reasonable ground, or where appropriate, based on reasonable assumptions in any material respects; or
 - (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, not having been disclosed in the prospectus, constitute a material misstatement in any of the prospectus, the Application Forms and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Public Offer (including any supplement or amendment thereto) or constitute a material omission therefrom, as considered by the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) in their sole and reasonable opinion to be material to the Share Offer; or
 - (iii) any breach of any of the obligations imposed upon any party under the Public Offer Underwriting Agreement or the Placing Underwriting Agreement (other than on any of the Underwriters) which the Joint Lead Managers consider to be material; or

UNDERWRITING

- (iv) any breach, considered by the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) in their sole and reasonable opinion to be material in the context of the Share Offer, of any of the representations, warranties and undertakings given by our Company, our executive Directors and Controlling Shareholders contained in the Public Offer Underwriting Agreement or any event rendering any such representations and warranties to be untrue, incorrect, inaccurate or misleading in any material respect; or
- (v) any matter or event arising or has been discovered rendering or there coming to the notice of any of the Joint Lead Managers or the Public Offer Underwriters any matter or event showing any of the representations, warranties and undertakings given by our Company or the Controlling Shareholders in the Public Offer Underwriting Agreement or the Placing Underwriting Agreement, as applicable, is (or would when repeated be) untrue, incorrect, incomplete in any material respect, or misleading or having been breached; or
- (vi) any change or development involving a prospective change in the conditions, business affairs, prospects, assets, liabilities, general affairs, management, shareholders' equity profits, losses or the financial or trading position or performance of any members of our Group which is considered by the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) in their sole and reasonable opinion to be material in the context of the Share Offer; or
- (vii) approval by the Listing Committee of the listing of, and permission to deal in, the Shares in issue or to be issued under the Share Offer is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (viii) our Company withdraws this prospectus and the Application Forms (and/or any other documents used in connection with contemplated subscription and sale of the Offer Shares) or the Share Offer; or
- (ix) any person (other than any of the Public Offer Underwriters) has withdrawn or sought to withdraw its consent to being named in this prospectus, the Application Forms and/or any other documents used in connection with the contemplated subscription and sale of the Offer Shares or to the issue of this prospectus, the Application Forms or any of such documents; or
- (x) other than with the approval of the Joint Lead Managers, the issue or requirement to issue by our Company of any supplement or amendment to this prospectus and the Application Forms (or to any other documents used in connection with the contemplated subscription and sale of the Offer Shares) pursuant to the Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance; or

UNDERWRITING

- (xi) the Listing Rules, the SFO or any other applicable laws, or any requirement or request of the Stock Exchange and/or the SFC where the matter to be disclosed is, in the sole and reasonable opinion of the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters), materially adverse to the marketing or implementation of the Share Offer; or
- (xii) any prohibition on our Company by a governmental authority for whatever reasons from offering, allotting, issuing or selling of the Offer Shares pursuant to the terms of the Share Offer; or
- (xiii) any event, act or omission which gives or is likely to give rise to any liability of any of the indemnified parties under the Public Offer Underwriting Agreement; or
- (xiv) the Placing Underwriting Agreement and/or the Price Determination Agreement shall not have been duly executed at or before 5:00 p.m. on Tuesday, 11 February 2020; or
- (xv) the imposition of any moratorium, suspension or material restriction on trading securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or
- (xvi) any event of force majeure including but without limiting the generality thereof, any act of god, war, riot, public disorder, civil commotion, fire, flood, epidemic, terrorism, strike, or lock-out, natural disaster, epidemics, pandemics and/or outbreak of infectious diseases including, *inter alia*, Severe Acute Respiratory Syndrome (SARS) and Influenza A (H5N1), Influenza A (H5N9), coronavirus (including the 2019-nCoV) and any related or mutated forms of infectious diseases (or the escalation and/or intensification of any outbreak, epidemic and/or pandemic of the foregoing), which in the reasonable opinion of the Sole Sponsor and/or the Joint Lead Managers (for themselves and on behalf of the Underwriters):
 - (a) is or will be materially adverse to the business, financial condition or prospects of the Group taken as a whole; or
 - (b) has or will have a material adverse effect on the success of the Share Offer or has or will have the effect of making any part of this agreement incapable of implementation or performance in accordance with its terms; or
 - (c) makes it inadvisable or inexpedient to proceed with the Share Offer; or
- (xvii) any potential litigation, disputes or claims which would affect the operation, financial condition or reputation of any member of the Group in any material respect; or
- (xviii) that a significant portion of the orders in the book building process at the time when the Placing Underwriting Agreement is entered into have been withdrawn, terminated, cancelled or otherwise not fulfilled; or

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- (b) there shall develop, occur, exist or come into effect:
- (i) any change or development involving a prospective change, or any event or series of events resulting in or representing a change or development involving a prospective change, in local, national, regional or international, financial, political, military, industrial, economic, fiscal, regulatory, currency or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets or any monetary or trading settlement system, any moratorium, suspension or material restriction on trading in securities general on the Stock Exchange, any change in the system under which the value of the Hong Kong currency is linked to that of the currency of the U.S. or any material fluctuation in the exchange rate of the Hong Kong dollars against any foreign currencies or any interruption in the securities settlement or clearing service or procedures, respectively) in or affecting Hong Kong, the Cayman Islands, the BVI or any relevant jurisdiction where any member of our Group is incorporated or operates (collectively, the “**Relevant Jurisdictions**” and individually, a “**Relevant Jurisdiction**”); or
 - (ii) any new law or regulation or any change or development involving a prospective change in existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or
 - (iii) any event or series of events in the nature of force majeure (whether or not covered by insurance or responsibility has been claimed) including, without limitation, acts of government, strikes, lock-outs, fire, explosions, flooding, earthquakes, epidemics, pandemics and/or outbreaks of infections, diseases, including, *inter alia*, Severe Acute Respiratory Syndrome (SARS) and Influenza A (H5N1), Influenza A (H5N9) coronavirus (including the 2019-nCoV) and any related or mutated forms of infectious diseases (or the escalation and/or intensification of any outbreak, epidemic and/or pandemic of the foregoing), civil commotions, economic sanctions, public disorder, social or political crises, acts of war, acts of terrorism, acts of God, accidents or interruptions or delays in transportation in or affecting any Relevant Jurisdiction; or
 - (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or
 - (v) (A) any suspension or limitation on trading in shares or securities generally on the Stock Exchange or (B) a general moratorium on commercial banking activities or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services procedures or matters in or affecting any Relevant Jurisdiction or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any of the Relevant Jurisdiction; or

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- (vi) any change or development involving a prospective change in taxation or exchange controls, currency exchange rates or foreign investment regulations (including without limitation a material devaluation of the Hong Kong dollar against any foreign currencies) or the implementation of any exchange control in any Relevant Jurisdiction; or
- (vii) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, any Relevant Jurisdiction; or
- (viii) any litigation, legal action or claim being threatened or instigated against any member of our Group; or
- (ix) any contravention by any member of the Group or any Director of the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Cayman Companies Law, the Listing Rules or other applicable laws;
- (x) the commencement by any governmental, law enforcement agency, regulatory or political body or organisation of any action against any Director or any member of our Group or an announcement by any governmental, law enforcement agency, regulatory or political body or organisation that it intends to take any such action; or
- (xi) any Director being charged or indicted or detained with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company or the commencement by any government authority of any investigation or other action against any Director in his/her capacity as such or an announcement by any government authority that it intends to investigate or take any such actions; or
- (xii) the chairman or chief executive officer of our Company vacating his position that leads to the circumstances where the operations of our Group will be materially and is likely, in the sole and absolute determination of the Joint Lead Managers (acting reasonably for themselves and on behalf of the Public Offer Underwriters), be adversely affected; or
- (xiii) an order or petition for the winding up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or substantive part of the assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group; or

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- (xiv) non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Share Offer with the Listing Rules, the Articles of Association, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance, the SFO or any other applicable laws and regulations; or
- (xv) a valid demand by any creditor for repayment or payment of any indebtedness of our Company or any member of our Group or in respect of which our Company or any member of our Group is liable prior to its stated maturity; or
- (xvi) any change or development involving a prospective change, or a materialisation of, any of the risk factors set out in the section headed “Risk factors” of this prospectus;
- (xvii) any loss or damage sustained by any member of our Group (howsoever caused but excluding such loss or damage which are subject of and fully covered by any insurance or claim against any person); or
- (xviii) any adverse change or development involving a prospective change in the condition (financial or otherwise) or in the assets, liabilities, general affairs, business, management, prospects, shareholders’ equity, profits, losses, results of operations, positions or condition, financial, operational or otherwise, trading position of any member of the Group, or customer confidence or performance of any member of our Group, including but not limited to any action, suit, proceeding, litigation or claim of any third party being threatened or instigated against any member of the Group, or any investigation of any member of the Group or an order or suspension of business by any government authority; or
- (xiv) other than with the approval of the Joint Lead Managers and the Public Offer Underwriters (such approval not to be unreasonably withhold), the issue or requirement to issue by our Company of a supplementary prospectus (or any other documents used in connection with the contemplated subscription for and/or purchaser of the Shares) pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules,

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which in each case in the sole and reasonable opinion of the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters):

- (1) is or will or could be expected to have a material adverse effect on the assets, liabilities, shareholders' equity, profits, losses, general affairs, management, business, financial, trading or other condition or prospects of our Company or our Group or any members of our Group or on any present or prospective shareholder in his, her or its capacity as such; or
- (2) has or will have or could be expected to have a material adverse effect on the success, marketability or pricing of the Share Offer or the level of applications under the Public Offer or the level of interest under the Placing; or
- (3) make, will make or is likely to make it impracticable, inadvisable or inexpedient for the Share Offer to proceed or to market the Share Offer or shall otherwise result in an interruption to or delay thereof; or
- (4) has or will or is likely to have the effect of making any part of the Public Offer Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof.

The Placing Underwriting Agreement

In connection with the Placing, it is expected that our Company will enter into the Placing Underwriting Agreement with, among others, the Joint Lead Managers, the Co-Managers and the Placing Underwriters on or around the Price Determination Date on terms and conditions that are substantially similar to the Public Offer Underwriting Agreement as described above and on the additional terms described below.

Under the Placing Underwriting Agreement, subject to the conditions set forth therein, the Placing Underwriters would agree to subscribe or procure subscribers to subscribe for, or failing which they shall subscribe for, the Placing Shares initially being offered pursuant to the Placing.

It is expected that the Placing Underwriting Agreement may be terminated on similar grounds as the Public Offer Underwriting Agreement. Potential investors shall note that in the event that the Placing Underwriting Agreement is not entered into or is terminated, the Share Offer will not proceed.

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The Placing Underwriting Agreement is conditional on and subject to the Public Offer Underwriting Agreement having been executed, becoming unconditional and not having been terminated. It is expected that pursuant to the Placing Underwriting Agreement, our Company and Controlling Shareholders will make similar undertakings as those given pursuant to the Public Offer Underwriting Agreement as described in the paragraph headed “Undertakings pursuant to the Public Offer Underwriting Agreement” below in this section.

UNDERTAKINGS GIVEN TO THE STOCK EXCHANGE PURSUANT TO THE LISTING RULES

Undertaking by our Company

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that save as pursuant to the Share Offer (including the issue and allot of Shares pursuant to the exercise of the Over-allotment Option or pursuant to the exercise of options under the Share Option Scheme) it will not exercise the power to issue any further Shares, or securities convertible into equity securities of our Company (whether or not of a class already listed), or enter into any agreement to issue such Shares or securities within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

Undertaking by our Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has jointly and severally, undertaken to and covenanted with each of our Company, the Stock Exchange, the Joint Lead Managers, the Sole Sponsor, the Co-Managers and the Underwriters that, except for circumstance permitted pursuant to Rule 10.07 of the Listing Rules, he shall not and shall procure none of his associated or companies controlled by him or any nominee or trustee holding in trust for him to:

- (a) in the period commencing on the date by reference to which disclosure of his/her/its shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date (“**First Six-month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities of our Company in respect of which he/she/it is shown by this prospectus to be the beneficial owner (whether direct or indirect) (the “**Relevant Shares**”); and

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- (b) in the period of six months commencing on the date on which the First Six-month Period expires (“**Second Six-month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Relevant Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/she/it, together with the other Controlling Shareholders, collectively would cease to be a group of controlling shareholders (as defined in the Listing Rules) of our Company. Under the abovementioned arrangement, each of Man Chase, Mr. Keng and Ms. Yeung shall not cease to be a group of controlling shareholders (as defined in the Listing Rules) of our Company during the Second Six-month Period.

In the event that he enters into any transaction specified in paragraph (a) above during the Second Six-month Period (whether or not such transaction will be completed in the aforesaid period), he will take all reasonable steps to ensure that any such transaction, agreement, or as the case may be, announcement will not create a disorderly or false market in the Shares.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has undertaken to and covenanted with our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Managers and the Underwriters that, within the period commencing on the date by reference to which disclosure of his shareholding in our Company is made in this prospectus and ending on the date which Second Six-month Period expires, he shall:

- (a) when he pledges or charges any of his direct or indirect interest in the Shares or other securities of our Company beneficially owned by him in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a *bona fide* commercial loan, immediately inform our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Managers and the Underwriters of such pledge or charge disclosing the number of such Shares or other securities of our Company so pledged or charged; and
- (b) having pledged or charged any of his interests in the Shares or other securities of our Company under paragraph (a) above, he must inform our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Managers and the Underwriters immediately in the event that he becomes aware that the pledgee or charge has disposed of or intends to dispose of such interest and of the number of the Shares or other securities of our Company affected.

Our Company shall also inform the Stock Exchange as soon as it has been informed of the above matters (if any) by any of the Controlling Shareholders and disclose such matters by way of an announcement to be published in accordance with the Listing Rules as soon as possible.

UNDERTAKINGS PURSUANT TO THE PUBLIC OFFER UNDERWRITING AGREEMENT

Undertaking by our Company

Pursuant to the Public Offer Underwriting Agreement, our Company has further undertaken to each of the Sole Sponsor, the Joint Lead Managers, the Co-Managers and the Public Offer Underwriters that, except for the issue, offer or sale of the Offer Shares by our Company pursuant to the Share Offer (including pursuant to the exercise of the Over-Allotment Option) and the issue of the Shares by our Company pursuant to the Capitalization Issue, our Company will not and will procure each other member of the Group not to, without the prior written consent of the Joint Lead Managers (for themselves and on behalf of the Public Offer Underwriters) and unless in compliance with the requirements of the Listing Rules, at any time during the period commencing from the date of this agreement and ending on the expiry of the six months after the Listing Date (the “**First Six-Month Period**”):

- (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, assign, mortgage, charge, pledge, assign, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, or repurchase, any legal or beneficial interest in the share capital or any other securities of our Company or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represents the right to receive, or any warrants or other rights to purchase any share capital or other securities of our Company, as applicable), or deposit any share capital or other securities of our Company, as applicable, with a depositary in connection with the issue of depositary receipts; or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of Shares or other securities of our Company or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of the Group, as applicable); or
- (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above; or
- (iv) offer or agree to do any of the foregoing or announce any intention to do so,

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in each case, whether any of the foregoing transactions specified is to be settled by delivery of Shares or such other securities, in cash or otherwise (whether or not the issue of such share capital or other securities will be completed within the First Six Month Period). Our Company further agrees that, in the event our Company enters into any of the transactions described in (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction during the period of six months commencing on the date on which the First Six Month Period expires (the “**Second Six Month Period**”), it will take all reasonable steps to ensure that such an issue or disposal will not, and no other act of our Company will, create a disorderly or false market for any Shares or other securities of our Company.

Undertaking by our Controlling Shareholders

Under the Public Offer Underwriting Agreement, each of the Controlling Shareholders has jointly and severally undertaken to our Company, each of the Sole Sponsor, the Joint Lead Managers, the Co-Managers and the Public Offer Underwriters that, except pursuant to the Share Offer (including the exercise of the Over-Allotment Option), he or it will not, without the prior written consent of the Joint Lead Managers (on behalf of the Co-Managers and the Public Offer Underwriters), and unless in compliance with the requirements of the Listing Rules:

- (a) during the First Six-Month Period:
 - (i) sell, offer to sell, contract or agree to sell, assign, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance over, or contract or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly (through a chain of companies or not), conditionally or unconditionally, any Shares or any other securities of our Company or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any other securities of our Company) held by it as of the date of this agreement; or
 - (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares); or
 - (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above; or
 - (iv) offer to or agree to or contract to, or announce any intention to enter into any transaction specified in (i), (ii) or (iii) above,

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in each case, whether any such transaction described in (i), (ii) or (iii) above is to be settled by delivery of such capital or securities, in cash or otherwise (whether or not such transaction will be completed within the First Six-Month Period);

- (b) it will not, during the Second Six-Month Period, enter into any of the transactions specified in clauses (i), (ii) or (iii) above or offer to or agree to or contract to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance pursuant to such transaction, it will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of our Company;
- (c) until the expiry of the Second Six-Month Period, in the event that it enters into any of the transactions specified in (i), (ii) or (iii) above or offer to or agrees to or announce any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company; and
- (d) at any time after the date hereof up to and including the date falling 12 months after the Listing Date, it shall:
 - (i) if and when it pledges or charges any Shares or other securities of our Company (or any interests therein) beneficially owned by it, immediately inform our Company and the Joint Lead Managers in writing of such pledge or charge together with the number of Shares or securities (or interests therein) so pledged or charged; and
 - (ii) if and when it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities (or interests therein) of our Company will be disposed of, immediately inform our Company and the Joint Lead Managers in writing of such indications.

Our Company has further agreed and undertaken that upon receiving such information in writing from any of the Controlling Shareholders, it shall, as soon as practicable and if required pursuant to the Listing Rules, notify the Stock Exchange and make a public disclosure in relation to such information by way of press announcement.

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COMMISSION AND EXPENSES

The Underwriters will receive combined management, praecipium and underwriting commission at the rate of 2.5% of the aggregate Offer Price payable of all the Offer Shares (including the Shares to be allotted and issued pursuant to the exercise of the Over-allotment Option), out of which they will pay any sub-underwriting commissions, if any.

For any unsubscribed Offer Shares reallocated to Placing, the underwriting commission will not be paid to the Public Offer Underwriters but will instead be paid, at the rate applicable to the Placing, to the Placing Underwriters.

The Sole Sponsor will receive a sponsorship in relation to the Listing and the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Managers and the Underwriters will be reimbursed for their expenses properly incurred in connection with the Share Offer. Such underwriting commission, advisory and documentation fees and expenses, together with the Stock Exchange listing fees, the Stock Exchange trading fees, the SFC transaction levy, legal and other professional fees, printing, and other expenses relating to the Share Offer and Listing, is currently estimated to be approximately HK\$36.8 million in aggregate (assuming the Over-allotment Option is net exercised and based on an Offer Price of HK\$0.55 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.50 to HK\$0.60 per Offer Share) and are to be borne by our Company.

SOLE SPONSOR AND THE UNDERWRITERS' INTEREST IN OUR COMPANY

Following the completion of the Share Offer, the Underwriters and their respective affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Underwriting Agreements.

Save for their interests and the obligations under the Underwriting Agreements, the sponsorship fee payable to the Sole Sponsor in connection with the Listing, the fee payable to the Sole Sponsor for acting as our compliance adviser, as at the Latest Practicable Date, and save for Sinomax Securities Limited, none of the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Managers or the Underwriters or their respective directors or employees, is interested, beneficially or otherwise, in any shares or securities in any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any shares or securities in any member of our Group.

Save as disclosed in the section headed "Directors and senior management" in this prospectus, no director or employee of the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Managers or the Underwriters has a directorship in our Company or any member of our Group.

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SPONSOR'S INDEPENDENCE

The Sole Sponsor satisfies the independence criteria applicable to sponsor set out in Rule 3A.07 of the Listing Rules.

MINIMUM PUBLIC FLOAT

Our Directors will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Share Offer.

INDEMNITY

Our Company and our Controlling Shareholders have agreed to indemnify the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Managers and the Underwriters for certain losses which it may suffer, including losses arising from its performance of its obligations under the Underwriting Agreements and any breach by our Company pursuant to the terms of the Underwriting Agreement.

COMPLIANCE ADVISER'S AGREEMENT

The Sole Sponsor has been appointed as the compliance adviser of the Company with effect from the Listing Date until the despatch of the audited consolidated financial results for the full financial year after the Listing Date as required under the Listing Rules, and our Company will pay to the Sole Sponsor an agreed fee for its provision of services as its compliance adviser.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE SHARE OFFER

This prospectus is published in connection with the Share Offer. Vinco Capital is the Sole Sponsor, BOCOM International Securities Limited, China Everbright Securities (HK) Limited, China Investment Securities International Brokerage Limited, Haitong International Securities Company Limited, Kingsway and Vinco Capital are the Joint Bookrunners and Joint Lead Managers of the Share Offer, and Livermore Holdings Limited, Valuable Capital Limited, Sinomax Securities and China Tonghai Securities Limited are the Co-Managers of the Share Offer.

The Share Offer comprises:

- (i) the Public Offer of 25,000,000 Public Offer Shares (subject to reallocation as mentioned below) representing 10% of the Offer Shares, which will be offered to members of the public in Hong Kong as further described under the paragraph headed “The Public Offer” below; and
- (ii) the Placing of an aggregate of 225,000,000 Placing Shares which will be conditionally placed with professional, institutional and other investors (subject to reallocation as mentioned below and the Over-allotment Option), representing 90% of the Offer Shares, as further described under the paragraph headed “The Placing” below.

Investors may apply for Offer Shares under the Public Offer or, if qualified to do so, apply for or indicate an interest for Offer Shares under the Placing, but may only receive shares under the Public Offer or the Placing.

The Public Offer is open to members of the public in Hong Kong as well as to institutional, professional and other investors in Hong Kong. The Placing will involve selective marketing of the Offer Shares to institutional, professional and other investors. The Placing Underwriters will solicit from prospective investors indications of interest in acquiring the Offer Shares in the Placing.

The Offer Shares will represent 25% of the enlarged issued share capital of our Company immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account of Shares which may be allotted and issued by the Company upon the exercise of the Over-allotment Option and/or options that may be granted under the Share Option Scheme). The number of Offer Shares to be offered under the Public Offer and the Placing respectively may be subject to reallocation as described in the paragraph headed “Reallocation of the Offer Shares between the Placing and the Public Offer” below.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Public Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE PUBLIC OFFER

Number of Offer Shares initially offered

Our Company is initially offering 25,000,000 Public Offer Shares for subscription (subject to reallocation) at the Offer Price by members of the public in Hong Kong under the Public Offer, representing 10% of the total number of Offer Shares offered under the Share Offer. The Public Offer Shares initially offered under the Public Offer, subject to any reallocation of Offer Shares between the Placing and the Public Offer, will represent 2.5% of our Company's enlarged issued share capital after completion of the Capitalisation Issue and Share Offer (without taking into account of Shares which may be allotted and issued by the Company upon the exercise of the Over-allotment Option and options that may be granted under the Share Option Scheme). The Public offer is fully underwritten by the Public Offer Underwriters (subject to satisfaction or waiver of the other conditions provided in the Public Offer Underwriting Agreement).

The Public Offer is open to all members of the public in Hong Kong as well as to institutional, professional and other investors. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Public Offer is subject to the conditions as set out in the paragraph headed "Conditions of the Share Offer" below in this section.

Allocation

Allocation of the Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants. When there is oversubscription under the Public Offer, allocation of the Public Offer Shares may, where appropriate, consist of balloting, which could mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

The total number of Public Offer Shares available under the Public Offer (after taking into account any reallocation as referred to below) is to be divided equally (to the nearest board lot) into two pools for allocation purposes: pool A and pool B. The Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares with an aggregate subscription price of HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable thereon) or less. The Public Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Public Offer Shares with an aggregate subscription price of more than HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable thereon) and up to the total value in pool B.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Investors should be aware that the allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pools is undersubscribed, the surplus Public Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly.

Applicants can only receive an allocation of Public Offer Shares from either pool A or pool B and not from both pools. Multiple or suspected multiple applications under the Public Offer and any application for more than 50% of the Public Offer Shares initially available under the Public Offer (i.e. 12,500,000 Public Offer Shares) will be rejected.

Applications

The Joint Lead Managers (for themselves and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the Placing, and who has made an application under the Public Offer, to provide sufficient information to the Joint Lead Managers so as to allow them to identify the relevant applications under the Public Offer and to ensure that they are excluded from any application of Offer Shares under the Public Offer.

Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the application submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Placing Shares under the Placing. Such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or if he or she has been or will be placed or allocated Placing Shares under the Placing. Multiple applications or suspected multiple applications and any application made for more than 50% of the Shares initially comprised in the Public Offer (i.e. 12,500,000 Public Offer Shares) are liable to be rejected.

The listing of the Offer Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Public Offer are required to pay, on application, the maximum Offer Price of HK\$0.60 per Offer Share plus 1% brokerage, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the paragraph headed "Pricing and allocation" of this section below, is less than the maximum Offer Price of HK\$0.60 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to wholly or partially successful applicants, without interest. For details, please refer to the section headed "How to apply for Public Offer Shares" of this prospectus.

THE PLACING

Number of Placing Shares initially offered

The number of the Offer Shares to be initially offered for subscription at the Offer Price under the Placing will be 225,000,000 Placing Shares (subject to reallocation and the Over-allotment Option as described below), representing 90% of the total number of Offer Shares initially offered under the Share Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

The Placing is expected to be fully underwritten by the Placing Underwriters on a several basis upon and subject to the terms and conditions of the Placing Underwriting Agreement (including the satisfaction or waiver of the conditions provided in thereunder). Subject to the reallocation of the Offer Shares between the Placing and the Public Offer, the number of Offer Shares initially offered under the Placing will represent 22.5% of our Company's enlarged issued share capital immediately after the completion of the Capitalisation Issue and Share Offer (without taking into account any Shares which may be allotted and issued by the Company pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme).

The Placing is expected to be subject to the conditions as stated in the paragraph headed "Conditions of the Share Offer" below.

Allocation

Pursuant to the Placing, it is expected that the Placing Shares will be conditionally placed on behalf of our Company by the Placing Underwriters or through selling agents appointed by them. The Placing Shares will be selectively placed to selected professional, institutional and other private investors. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Private investors applying through banks or other institutions who sought the Placing Shares in the Placing may also be allocated the Placing Shares.

Allocation of Placing Shares will be effected in accordance with the "book-building" process based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the Listing. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole. Investors to whom Placing Shares are offered will be required to undertake not to apply for Shares under the Public Offer.

Applications

Our Company, our Directors, the Sole Sponsor and Joint Lead Managers (for themselves and on behalf of the Underwriters) are required to take reasonable steps to identify and reject applications under the Public Offer from investors who receive Shares under the Placing, and to identify and reject indications of interest in the Placing from investors who receive Shares under the Public Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

REALLOCATION OF THE OFFER SHARES BETWEEN THE PLACING AND THE PUBLIC OFFER

The allocation of the Offer Shares between the Placing and the Public Offer is subject to reallocation on the following basis:

- (I) Where the Placing Shares are fully subscribed or oversubscribed:
 - (a) if the Public Offer Shares are undersubscribed, the Joint Lead Managers (for themselves and on behalf of the Underwriters) have the authority (but shall not be under any obligations) to reallocate all or any unsubscribed Public Offer Shares to the Placing, in such proportions as the Joint Lead Managers (for themselves and on behalf of the Underwriters) deem appropriate;
 - (b) if the Public Offer Shares are not undersubscribed but the number of Offer Shares validly applied for under the Public Offer represents less than 15 times the number of the Offer Shares initially available for subscription under the Public Offer, the Joint Lead Managers may at their sole discretion reallocate up to 25,000,000 Offer Shares to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be increased to 50,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Share Offer (before any exercise of the Over-allotment Option);
 - (c) if the number of Offer Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Public Offer, then 50,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, so that the total number of Offer Shares available for subscription under the Public Offer will be increased to 75,000,000 Offer Shares, representing 30% of the number of the Offer Shares initially available for subscription under the Share Offer (before any exercise of the Over-allotment Option);
 - (d) if the number of Offer Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Public Offer, then 75,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, so that the total number of Offer Shares available for subscription under the Public Offer will be increased to 100,000,000 Offer Shares, representing 40% of the number of the Offer Shares initially available for subscription under the Share Offer (before any exercise of the Over-allotment Option); and
 - (e) if the number of Offer Shares validly applied for under the Public Offer represents 100 times or more the number of Offer Shares initially available for subscription under the Public Offer, then 100,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, so that the total number of Offer Shares available for subscription under the Public Offer will be increased

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

to 125,000,000 Offer Shares, representing 50% of the number of the Offer Shares initially available for subscription under the Share Offer (before any exercise of the Over-allotment Option).

(II) Where the Placing Shares are undersubscribed:

- (a) if the Public Offer Shares are undersubscribed, the Share Offer will not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Share Offer on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements; and
- (b) if the Public Offer Shares are fully subscribed or oversubscribed irrespective of the number of times the number of Offer Shares initially available for subscription under the Public Offer, then up to 25,000,000 Offer Shares may be reallocated to the Public Offer from the Placing (as the Joint Lead Managers deem appropriate), so that the total number of the Offer Shares available under the Public Offer will be increased to 50,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available for subscription under the Share Offer (before any exercise of the Over-allotment Option).

In the event of a reallocation of Offer Shares from the Placing to the Public Offer in circumstances under paragraph (I)(b), (I)(c), (I)(d), (I)(e) and (II)(b) above, the additional Offer Shares reallocated to the Public Offer from the Placing will be allocated equally between pool A and pool B and the number of Offer Shares allocated to the Placing will be correspondingly reduced, in such number as the Joint Lead Managers (for themselves and on behalf of the Underwriters) deems appropriate.

In the event of reallocation of Offer Shares between the Public Offer and the Placing in the circumstances where (i) the Placing Shares are fully subscribed or oversubscribed and the Public Offer Shares are fully subscribed or oversubscribed by less than 15 times under paragraph (I)(b) above; or (ii) the Placing Shares are undersubscribed and the Public Offer Shares are fully subscribed or oversubscribed under paragraph (II)(b) above, the final Offer Price shall be fixed at the low-end of the indicative Offer Price range (i.e. HK\$0.50 per Offer Share) stated in this prospectus in accordance with Guidance Letter HKEX-GL-91-18 issued by the Stock Exchange.

In addition, the Joint Lead Managers (for themselves and on behalf of the Underwriters) may in its sole and absolute discretion reallocate Offer Shares from the Placing to the Public Offer to satisfy valid applications under the Public Offer. In accordance with Guidance Letter HKExGL91-18 issued by the Stock Exchange, if such reallocation is done other than pursuant to Practice Note 18 of the Listing Rules, the maximum total number of Offer Shares that may be reallocated to the Public Offer following such reallocation shall be not more than double the initial allocation to the Public Offer (i.e. 50,000,000 Offer Shares).

The Offer Shares to be offered in the Public Offer and the Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Lead Managers. If the Public Offer Shares are not fully subscribed, the Joint Lead Managers may have the discretion to reallocate to the Placing all or any unsubscribed Public Offer Shares in such numbers as they deem appropriate only if the Public Offer is not fully subscribed and the Placing is fully subscribed.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

OVER-ALLOTMENT OPTION

Our Company is expected to grant to the Placing Underwriters the Over-allotment Option, exercisable at the sole discretion of the Joint Lead Managers (for themselves and as the agent on behalf of the Placing Underwriters) at any time during the period from the Listing Date until 30 days after the last day for lodging applications under the Public Offer to cover over-allocations in the Placing and/or the obligation of the Stabilising Manager to return securities borrowed under the Stock Borrowing Agreement. Pursuant to the Over-allotment Option, our Company may be required to allot and issue up to 37,500,000 additional new Shares, representing 15% of the number of Offer Shares initially available under the Share Offer, at the Offer Price.

If the Over-allotment Option is exercised in full, the additional 37,500,000 Shares will represent approximately 3.61% of our Company's enlarged share capital immediately after completion of the Share Offer, the Capitalisation Issue and the exercise in full of the Over-allotment Option (but without taking into account any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme).

Our Company will disclose in the announcement of the results of allocations and the basis of allocation of the Public Offer Shares whether, and to what extent, the Over-allotment Option has been exercised. In the event that the Over-allotment Option has not been exercised by the Joint Lead Managers on behalf of the Placing Underwriters, our Company will confirm in such announcement that the Over-allotment Option has lapsed and cannot be exercised at any future date.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial offer prices of the securities. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited, and the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Share Offer, Kingsway, as Stabilising Manager or its authorised agents, may, but are not obliged to, over-allocate Shares and/or effect any other transactions with a view to stabilising or supporting the market price of our Shares at a level higher than which might otherwise prevail in the open market, for a limited period. Such stabilising activity may include stock borrowing, making market purchases of Shares in the secondary market or selling Shares to liquidate a position held as a result of those purchases, as well as exercising the Over-allotment Option. Any such stabilising activity will be effected in compliance with all applicable laws, rules and regulatory requirements in Hong Kong on stabilisation including the Securities and Futures (Price Stabilising) Rules made under the SFO.

In Hong Kong, stabilising activities must be carried out in accordance with the Securities and Futures (Price Stabilising) Rules (Cap 571W). Stabilising actions permitted pursuant to the Securities and Futures (Price Stabilising) Rules include:

- (a) over-allocation for the purpose of preventing or minimizing any reduction in the market price;

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

- (b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares;
- (c) subscribing, or agreeing to subscribe, for the Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above;
- (d) purchasing, or agreeing to purchase, the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares;
- (e) selling or agreeing to sell any of the Shares to liquidate a long position held as a result of those purchase; and
- (f) offering or attempting to do anything described in (b), (c), (d) and (e) above.

However, there is no obligation on the Stabilising Manager or its authorised agents to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilising Manager or its authorised agents acting for it and in what the Stabilising Manager reasonably regards as the best interest of our Company; and may be discontinued at any time. The number of Shares that may be over-allocated will not exceed the number of Shares that may be issued under the Over-allotment Option, namely 37,500,000 Shares, which is 15% of the number of Shares initially available under the Share Offer.

Specifically, prospective applicants for and investors in the Offer Shares should note that as a result of effecting transactions to stabilise or maintain the market price of our Shares, the Stabilising Manager or its authorised agents may maintain a long position in our Shares. The size of the long position, and the period for which the Stabilising Manager or its authorised agents will maintain the long position is at the discretion of the Stabilising Manager or its authorised agents and is uncertain. In the event that the Stabilising Manager or its authorised agents liquidate this long position by making sales in the open market, this may lead to a decline in the market price of our Shares.

Stabilising activity by the Stabilising Manager or its authorised agents acting for it is not permitted to support the price of our Shares for longer than the stabilising period, which begins on the day on which trading of our Shares commences on the Stock Exchange and ends on the 30th day after the last day for lodging applications under the Public Offer. The stabilising period is expected to end on Sunday, 8 March 2020. As a result, demand for the Shares, and their market price, may fall after the end of the stabilising period.

These activities by the Stabilising Manager may stabilize, maintain or otherwise affect the market price of the Shares. As a result, the price of the Shares may be higher than the price that otherwise may exist in the open market.

Any stabilising activity taken by the Stabilising Manager or its authorised agents may not necessarily result in the market price of our Shares staying at or above the Offer Price either during or after the stabilising period. Bids for or market purchases of our Shares by the Stabilising Manager or its authorised agents may be made at a price at or below the Offer Price and therefore at or below the price paid for our Shares by investors.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Our Company will ensure and procure that a public announcement in compliance with the Securities and Futures (Price Stabilising) Rules will be made within seven days of the expiration of the stabilising period.

In order to facilitate the settlement of over-allocations, the Stabilising Manager or its authorised agents may, among other means, purchase Shares in the secondary market, enter into stock borrowing arrangements with holders of Shares, exercise the Over-allotment Option, engage a combination of these means or otherwise as may be permitted under applicable laws. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations.

STOCK BORROWING AGREEMENT

The Stabilising Manager will enter into the Stock Borrowing Agreement with Man Chase, whereby, the Stabilising Manager, as stabilising manager or its authorised agents may borrow up to 37,500,000 Shares from Man Chase equivalent to the maximum number of additional Shares to offered upon full exercise of the Over-allotment Option, under the Stock Borrowing Agreement. The Stock Borrowing Agreement will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are to be complied with.

PRICING AND ALLOCATION

Pursuant to the Price Determination Agreement, pricing for the Offer Shares for the purpose of the Share Offer will be fixed on the Price Determination Date, which is expected to be on or around Monday, 10 February 2020, and in any event not later than 5:00 p.m. on Tuesday, 11 February 2020, by agreement between the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company and the number of Offer Shares to be allocated under the Share Offer will be determined shortly thereafter.

The Offer Price will be not more than HK\$0.60 per Offer Share and is expected to be not less than HK\$0.50 per Offer Share unless otherwise announced, as further explained below. Applicants for Offer Shares under the Public Offer must pay, on application, the maximum Offer Price of HK\$0.60 for each Public Offer Share (plus the brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.0027% payable on each Offer Share), amounting to a total of HK\$6,060.46 per board lot of 10,000 Offer Shares. If the Offer Price is less than HK\$0.60 per Public Offer Share, appropriate refund payments (including the brokerage, Stock Exchange trading fee and SFC transaction levy attributable to the surplus applicable monies, without any interest) will be made to wholly or partially successful applicants. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

If, for any reason, our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters) are unable to reach agreement on the Offer Price at or before 5:00 p.m. on Tuesday, 11 February 2020, the Share Offer will not proceed and will lapse.

For details, please refer to the section headed “How to apply for Public Offer Shares” of this prospectus.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Change to the number of Offer Shares being offered and/or Offer Price range

The Joint Lead Managers will be soliciting from prospective investors indications of interest in acquiring the Offer Shares in the Placing. Prospective investors will be required to specify the number of Offer Shares under the Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around, the last day for lodging applications under the Public Offer. In such a case, our Company will, as soon as practicable following the decision to make such change, and in any event not later than the morning of the last day for lodging applications under the Public Offer, cause there to be published on our Company’s website at www.hkfsfinance.com and the Stock Exchange’s website at www.hkexnews.hk an announcement of the change and will issue a supplemental prospectus updating investors of the change in the indicative Offer Price; extend the period under which the Public Offer was open for acceptance to allow potential investors sufficient time to consider their subscriptions or reconsider their submitted subscriptions; and potential investors who had applied for the Offer Shares will need to confirm their applications in accordance with the procedures set out in the announcement and all unconfirmed applications will not be valid. In such event, details of the arrangement will be announced by our Company as soon as practicable. Prospective investors of the Offer Shares should be aware that the Offer Price to be determined on the Price Determination Date may be, but is currently not expected to be, lower than the indicative Offer Price range stated in this prospectus. Upon issue of such an announcement, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon with our Company, will be fixed within such revised Offer Price range. Such announcement will also include confirmation or revision, as appropriate, of the working capital statement, the Share Offer statistics, and any other financial information in this prospectus which may change as a result of any such change.

Before submitting applications for the Public Offer Shares, applicants should have regard to the possibility that any announcement of an extension or reduction in the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Public Offer. Applicants who have submitted their applications for Public Offer Shares before such an announcement is made will be entitled to withdraw their applications unless positive confirmations from the applicants to proceed are received. In the absence of any such announcement being published in relation to a change in the indicative Offer Price range as stated in this prospectus on or before the morning of the last day for lodging applications under the Public Offer, the Offer Price, if agreed upon by the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

The Joint Lead Managers (for themselves and on behalf of the Underwriters) may, where they deem appropriate, based on the level of interest expressed by prospective investors during the book-building process in respect of the Placing, and with the consent of our Company, reduce the number of the Offer Shares being offered and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such a case, our Company shall cause to be published, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Public Offer:

- (a) an announcement of the reduction on the website of the Stock Exchange at **www.hkexnews.hk** and our Company's website at **www.hkfsfinance.com**. The announcement will include a confirmation or revision, as appropriate, of the working capital statement and the offering statistics and any other financial information in this prospectus which may change as a result of any such change; and
- (b) such supplemental offering documents as may be required by laws of any governmental authority to be published in such manner as the relevant laws or governmental authority may require as soon as practicable following the decision to make the change.

Upon issue of such announcement, the revised number of the Offer Shares and/or Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company, will be fixed within such revised number of the Offer Shares and/or Offer Price range.

Before submitting applications for the Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the indicative Offer Price range may not be made until the last day for lodging applications under the Public Offer. In the absence of any such announcement published the number of Offer Shares and/or the Offer Price will not be reduced and the Offer Price, if agreed upon by our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters), will under no circumstances be set outside the indicative Offer Price range as stated in this prospectus.

ANNOUNCEMENT OF THE FINAL OFFER PRICE AND THE BASIS OF ALLOCATIONS

Announcement of the final Offer Price, the level of indication of interests in the Placing, the level of applications in the Public Offer, the basis of allocation of the Public Offer Shares and the results of allocations of the Public Offer is expected to be published on Tuesday, 18 February 2020 on the website of the Stock Exchange at **www.hkexnews.hk** and our Company's website at **www.hkfsfinance.com**.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

UNDERWRITING

The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement, which is conditional on and subject to the Placing Underwriting Agreement having been executed and becoming unconditional and not having been terminated in accordance with its terms.

Our company expects to enter into the Placing Underwriting Agreement relating to the Placing on or around the Price Determination Date. These underwriting arrangements and the Underwriting Agreements are summarised in the section headed “Underwriting” of this prospectus.

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for the Offer Shares is conditional upon, among others, the satisfaction of all of the following conditions:

- (a) the Listing Committee granting the approval of the Listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalisation Issue and the Share Offer (including the additional Shares which may be allotted and issued upon the exercise of the Over-allotment Option and upon the exercise of any options which may be granted under the Share Option Scheme) and such approval not subsequently being withdrawn revoked prior to the Listing Date;
- (b) the execution and delivery of the Placing Underwriting Agreement on or about the Price Determination Date;
- (c) the obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of a waiver of any condition(s)) and such obligations not being terminated in accordance with the terms of the Underwriting Agreements; and
- (d) the Offer Price having been agreed between the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company pursuant to the Price Determination Agreement, in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and, in any event, not later than the date which is 30 days after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between us and the Joint Lead Managers (for themselves and on behalf of the Underwriters) on or around Monday, 10 February 2020 and in any event, no later than 5:00 p.m. on Tuesday, 11 February 2020, the Share Offer will not proceed and will lapse.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

If the above conditions are not fulfilled or waived on or before the dates and times specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Share Offer will be published by our company on the Stock Exchange's website at **www.hkexnews.hk** and our Company's website at **www.hkfsfinance.com** on the next Business Day following such lapse. In the event of such lapse, all application monies will be returned to the applicants, without interest on the terms set out in the paragraph headed "12. Refund of application monies" under the section headed "How to apply for Public Offer Shares" in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance.

Share certificates for the Offer Shares are expected to be issued on Tuesday, 18 February 2020 but will only become valid certificates of title at 8:00 a.m. (Hong Kong time) on Wednesday, 19 February 2020 provided that: (a) the Share Offer has become unconditional in all respects; and (b) the right of termination as described in "Underwriting – Underwriting arrangements – The Public Offer Underwriting Agreement – Grounds for termination" of this prospectus has not been exercised. Investors who trade Shares prior to the receipt of shares certificates or prior to the share certificates bearing valid certificates of title do so entirely at their own risk.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Application has been made to the Stock Exchange for listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus. If the Stock Exchange grants the listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus on the Stock Exchange and our Company complies with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposits, clearance and settlement in CCASS with effect from the Listing Date or, under contingent situation, any other date as determined by HKSCC. Settlement of transactions between HKEX Participants is required to take place in CCASS on the second Business Day after any trading day.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

COMMENCEMENT OF DEALING AND SETTLEMENT

Assuming that the Share Offer becomes unconditional at or before 8:00 a.m. (Hong Kong time) on Wednesday, 19 February 2020, it is expected that dealing in the Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, 19 February 2020.

The Shares will be traded in board lots of 10,000 Shares each and the stock code of the Shares is 2263.

HOW TO APPLY FOR PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for the Placing Shares.

To apply for the Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application. Our Company, the Joint Lead Managers and their respective agents and nominee may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY FOR THE PUBLIC OFFER SHARES

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you (or the person(s) for whose benefit you are applying):

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC (unless permitted by all applicable PRC laws and regulations to subscribe to the Public Offer).

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his or her representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, our Company, the Sole Sponsor, the Joint Lead Managers or their respective agents and nominees may accept or reject it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four for the Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Public Offer Shares if you:

- are an existing beneficial owner of Shares in our Company and/or any of our subsidiaries;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- are a director or chief executive officer of our Company and/or any of our subsidiaries;
- are a connected person or a core connected person (both as defined in the Listing Rules) of our Company or will become a connected person or a core connected person of our Company immediately upon completion of the Share Offer;
- are an associate or a close associate (both as defined in the Listing Rules) of any of the above; and
- have been allocated or have applied for or in indicated an interest in any Placing Shares or otherwise participate in the Placing.

3. APPLYING FOR THE PUBLIC OFFER SHARES

Which application channel to Use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to collect the Application Forms and the prospectus

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 31 January 2020 until 12:00 noon on Friday, 7 February 2020 from:

- (i) the office of the following party:

BOCOM International Securities Limited

9th Floor, Man Yee Building
68 Des Voeux Road, Central
Hong Kong

China Everbright Securities (HK) Limited

24/F, Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

China Investment Securities International Brokerage Limited

Level 17, Three Pacific Place
1 Queen's Road East, Hong Kong

HOW TO APPLY FOR PUBLIC OFFER SHARES

Haitong International Securities Company Limited

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

Kingsway Financial Services Group Limited

7/F Tower One, Lippo Centre
89 Queensway, Hong Kong

Vinco Capital Limited

Unit 2610, 26th Floor, The Center
99 Queen's Road Central
Hong Kong

Livermore Holdings Limited

Unit 1214A, 12/F
Tower II Cheung Sha Wan Plaza,
833 Cheung Sha Wan Road
Kowloon, Hong Kong

Valuable Capital Limited

Room 2808, 28th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Sinomax Securities Limited

Room 2705-6, 27/F
Tower One, Lippo Centre
89 Queensway
Hong Kong

China Tonghai Securities Limited

18/F, China Building
29 Queen's Road Central
Hong Kong

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (ii) or any of the following designated branches of DBS Bank (Hong Kong) Limited, the receiving bank for the Public Offer:

District	Branch name	Address
Hong Kong Island	United Centre Branch	Shops 1015-1018 on 1/F & Shops 2032-2034 on 2/F, United Centre, 95 Queensway, Admiralty
	Happy Valley Branch	G/F, 18A-22 King Kwong Street, Happy Valley
Kowloon	Nathan Road – SME Banking Centre	2/F, Wofoo Commercial Building, 574-576 Nathan Road, Mongkok
	Kowloon Bay – SME Banking Centre	Shop 6, G/F, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay
New Territories	Yuen Long Branch	G/F, 1-5 Tai Tong Road, Yuen Long

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 31 January 2020 until 12:00 noon on Friday, 7 February 2020 from (i) the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong; or (ii) your stockbroker.

Time for lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to “**Ting Hong Nominees Limited – Fu Shek Financial Holdings Limited Public Offer**” for the payment, should be deposited in the special collection boxes provided at any of the designated branches of the receiving bank listed above, at the following times:

Friday, 31 January 2020	–	9:00 a.m. to 5:00 p.m.
Saturday, 1 February 2020	–	9:00 a.m. to 1:00 p.m.
Monday, 3 February 2020	–	9:00 a.m. to 5:00 p.m.
Tuesday, 4 February 2020	–	9:00 a.m. to 5:00 p.m.
Wednesday, 5 February 2020	–	9:00 a.m. to 5:00 p.m.
Thursday, 6 February 2020	–	9:00 a.m. to 5:00 p.m.
Friday, 7 February 2020	–	9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 7 February 2020, the last application day or such later time as described in the paragraph headed “9. Effect of bad weather on the opening of the application lists” in this section.

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4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

- undertake to execute all relevant documents and instruct and authorise our Company, the Sole Sponsor, the Joint Bookrunners, and/or the Joint Lead Managers and/or the Co-Managers (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Memorandum and the Articles of Association;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- confirm that you are aware of the restrictions on the Share Offer in this prospectus;
- agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Placing Shares under the Placing nor participated in the Placing;
- agree to disclose to our Company, our Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

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- agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- agree that your application will be governed by the laws of Hong Kong;
- represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- warrant that the information you have provided is true and accurate;
- agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible and have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- understand that our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Managers and any of their respective directors, officers or representatives or any other person or party involved in the Share Offer will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC by you or by any one as your agent or by any other person; and
- (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional instructions for Yellow Application Form

You may refer to the **Yellow** Application Form for details.

5. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the monies due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System at (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
1/F, One & Two Exchange Square,
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Bookrunners, the Joint Lead Managers, the Co-Managers, the Underwriters and our Hong Kong Branch Share Registrar.

Giving electronic application instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

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(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
- agree to accept the Public Offer Shares applied for or any lesser number allocated to you under the application;
- undertake and confirm that you or the person(s) for whose benefit you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Placing Shares nor participated in the Placing;
- (if the electronic application instructions are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that our Company, our Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Managers any of their respective directors, officers or representatives or any other person or party involved in the Share Offer will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

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- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Managers, the Underwriters and/or their respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Public Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of our Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Memorandum and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

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Effect of giving electronic application instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum purchase amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 10,000 Public Offer Shares. Instructions for more than 10,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Time for inputting electronic application instructions⁽¹⁾

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Friday, 31 January 2020	–	9:00 a.m. to 8:30 p.m.
Saturday, 1 February 2020	–	8:00 a.m. to 1:00 p.m.
Monday, 3 February 2020	–	8:00 a.m. to 8:30 p.m.
Tuesday, 4 February 2020	–	8:00 a.m. to 8:30 p.m.
Wednesday, 5 February 2020	–	8:00 a.m. to 8:30 p.m.
Thursday, 6 February 2020	–	8:00 a.m. to 8:30 p.m.
Friday, 7 February 2020	–	8:00 a.m. to 12:00 noon

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

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CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 31 January 2020 until 12:00 noon on Friday, 7 February 2020 (24 hours daily, except on 7 February 2020, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 7 February 2020, the last application day or such later time as described in the paragraph headed “9. Effect of bad weather on the opening of the application lists” in this section.

No multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal data

The section of the Application Form headed “Personal data” applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

6. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Such facility is subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form; or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, 7 February 2020.

7. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of a company;
- control more than half of the voting power of a company; or

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- hold more than half of the issued share capital of a company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

8. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for the Public Offer Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee in full upon application for the Public Offer Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form in respect of a minimum of 10,000 Public Offer Shares. Each application or **electronic application instruction** in respect of more than 10,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the paragraph headed “Pricing and allocation” under the section headed “Structure and conditions of the Share Offer” in this prospectus.

9. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 7 February 2020. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 7 February 2020 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected timetable” in this prospectus, an announcement will be made in such event.

10. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Tuesday, 18 February 2020 (i) on our Company’s website at **www.hkfsfinance.com**; and (ii) the website of the Stock Exchange at **www.hkexnews.hk**.

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The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at **www.hkfsfinance.com** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 8:00 a.m. on Tuesday, 18 February 2020;
- from the designated results of allocations website at **www.unioniporesults.com.hk** with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Tuesday, 18 February 2020 to 12:00 mid-night on Monday, 24 February 2020;
- by telephone enquiry line by calling (852) 2843 6087 between 9:00 a.m. and 6:00 p.m. from Tuesday, 18 February 2020 to Friday, 21 February 2020 on a Business Day; and
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, 18 February 2020 to Thursday, 20 February 2020 at all the receiving bank's designated branches.

If our Company accepts your offer to purchase (in whole or in part), which we may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed "Structure and conditions of the Share Offer" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

11. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

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Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Joint Lead Managers, and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;

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- your Application Form is not completed in accordance with the stated instructions;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Lead Managers believe that by accepting your application, it would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Public Offer Shares initially offered under the Public Offer.

12. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$0.60 per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon), or if the conditions of the Share Offer are not fulfilled in accordance with the section headed "Structure and conditions of the Share Offer" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Tuesday, 18 February 2020.

13. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

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No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on Tuesday, 18 February 2020. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid certificates of title at 8:00 a.m. (Hong Kong time) on Wednesday, 19 February 2020 provided that the Share Offer has become unconditional and the right of termination described in the paragraph headed “Underwriting arrangements – The Public Offer Underwriting Agreement – Grounds for termination” under the section headed “Underwriting” in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid certificates of title do so at their own risk.

Personal collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 Public Offer Shares or more and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) from the Hong Kong Branch Share Registrar, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 18 February 2020 or such other date as announced by us on the website of our Company at **www.hkfsfinance.com** or on the website of the Stock Exchange at **www.hkexnews.hk**.

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If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Tuesday, 18 February 2020, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above for collection of refund cheque(s). If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Tuesday, 18 February 2020, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Tuesday, 18 February 2020, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

For Public Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in "10. Publication of results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 18 February 2020 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

HOW TO APPLY FOR PUBLIC OFFER SHARES

(iii) If you apply via electronic application instructions to HKSCC

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, 18 February 2020, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allocation of the Public Offer Shares in the manner specified in "10. Publication of results" above on Tuesday, 18 February 2020. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 18 February 2020 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 18 February 2020. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

HOW TO APPLY FOR PUBLIC OFFER SHARES

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, 18 February 2020.

14. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the sole purpose of inclusion in this prospectus, from independent reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.



ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF FU SHEK FINANCIAL HOLDINGS LIMITED AND VINCO CAPITAL LIMITED

Introduction

We report on the historical financial information of Fu Shek Financial Holdings Limited (the **"Company"**) and its subsidiaries (together, the **"Group"**) set out on pages I – 4 to I – 68, which comprises the combined statements of financial position of the Group as at 31 March 2017, 2018, 2019 and 31 July 2019, the statements of financial position of the Company as at 31 March 2017, 2018, 2019 and 31 July 2019 and the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Group for each of the three years ended 31 March 2019 and the four months ended 31 July 2019 (the **"Track Record Period"**) 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 – 4 to I – 68 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 31 January 2020 (the **"Prospectus"**) in connection with the initial listing of shares of the Company on the Main Board 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 Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of 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 (the **"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 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 Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information 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 Group's financial position as at 31 March 2017, 2018, 2019 and 31 July 2019, of the Company's financial position as at 31 March 2017, 2018, 2019 and 31 July 2019 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the combined statement of profit or loss and other comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the four months ended 31 July 2018 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

The Historical Financial Information is stated after making such adjustments to the Underlying Financial Statements as defined on page I – 4 as were considered necessary.

Dividends

We refer to Note 17 to the Historical Financial Information which states that no dividend has declared or paid by the Company since its incorporation or by group entities in respect of the Track Record Period.

No historical financial statements for the Company

No financial statements have been prepared for the Company since its date of incorporation.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
31 January 2020

HISTORICAL FINANCIAL INFORMATION OF THE GROUP**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information in this report was prepared based on financial statements of Sinomax Securities Limited ("**Sinomax Securities**") for the Track Record Period and the management accounts of the Company and Smart Domain Group Limited ("**Smart Domain**") from their respective dates of incorporation to 31 July 2019 (together, the "**Underlying Financial Statements**"). The Underlying Financial Statements have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by HKICPA. The financial statements of Sinomax Securities were audited by us in accordance with Hong Kong Standards of Auditing issued by HKICPA.

The Historical Financial Information is presented in HK dollars and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

**COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

		Year ended 31 March			Four months ended 31 July	
		2017	2018	2019	2018	2019
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(unaudited)	
Revenue						
Fee and commission income	6	25,089	45,471	51,905	12,484	20,083
Interest income	6	<u>10,567</u>	<u>11,251</u>	<u>13,370</u>	<u>3,464</u>	<u>5,383</u>
		35,656	56,722	65,275	15,948	25,466
Other gains and losses	8	3	(114)	(172)	(37)	(87)
Other income	9	489	118	643	125	255
Staff costs	10	(3,186)	(4,697)	(5,268)	(1,787)	(2,126)
Finance costs	11	(79)	(204)	(372)	(53)	(457)
Impairment loss, net of reversal	12	–	(365)	365	–	–
Commission expenses		(1,299)	(4,627)	(5,994)	(2,092)	(1,290)
Listing expenses		(96)	(1,896)	(1,891)	(1,158)	(5,096)
Other expenses		(8,824)	–	(1,289)	(1,289)	–
Depreciation of property and equipment		(1,688)	(1,771)	(1,774)	(592)	(588)
Other operating expenses		<u>(2,972)</u>	<u>(3,283)</u>	<u>(3,933)</u>	<u>(1,317)</u>	<u>(1,403)</u>
Profit before taxation	13	18,004	39,883	45,590	7,748	14,674
Taxation	14	<u>(4,375)</u>	<u>(6,854)</u>	<u>(7,809)</u>	<u>(1,627)</u>	<u>(3,183)</u>
Profit and total comprehensive income for the year/period		<u>13,629</u>	<u>33,029</u>	<u>37,781</u>	<u>6,121</u>	<u>11,491</u>

COMBINED STATEMENTS OF FINANCIAL POSITION

	Notes	The Group				The Company			
		As at 31 March			As at	As at 31 March			As at
		2017	2018	2019	31 July	2017	2018	2019	31 July
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets									
Interest in a subsidiary	37	–	–	–	–	1	1	1	1
Property and equipment	18	5,023	3,357	1,583	1,035	–	–	–	–
Intangible asset	19	2,735	2,735	2,735	2,735	–	–	–	–
Other assets	20	200	301	200	200	–	–	–	–
Deposits and prepayments	22	465	488	–	–	–	–	–	–
		<u>8,423</u>	<u>6,881</u>	<u>4,518</u>	<u>3,970</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Current assets									
Accounts receivable	21	130,544	128,783	204,687	236,503	–	–	–	–
Deposits and prepayments	22	1,119	1,642	1,713	3,041	754	1,399	965	2,203
Held-for-trading investments	23	999	823	–	–	–	–	–	–
Bank balances – trust and segregated accounts	24	116,342	145,872	137,608	119,826	–	–	–	–
Bank balances – general accounts and cash	24	<u>20,006</u>	<u>61,227</u>	<u>30,227</u>	<u>37,976</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
		<u>269,010</u>	<u>338,347</u>	<u>374,235</u>	<u>397,346</u>	<u>754</u>	<u>1,399</u>	<u>965</u>	<u>2,203</u>
Non-current liabilities									
Lease liabilities	29	<u>3,100</u>	<u>1,445</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Current liabilities									
Accounts payable	25	152,280	186,070	154,173	159,689	–	–	–	–
Other payables and accrued charges	26	2,018	3,302	4,010	6,954	1,381	1,927	2,253	4,824
Bank borrowings	27	–	–	30,000	30,000	–	–	–	–
Amounts due to related companies	28	–	–	–	–	8,294	10,291	12,760	16,522
Tax payable		1,229	2,493	1,081	4,264	–	–	–	–
Lease liabilities	29	<u>1,572</u>	<u>1,655</u>	<u>1,445</u>	<u>874</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
		<u>157,099</u>	<u>193,520</u>	<u>190,709</u>	<u>201,781</u>	<u>9,675</u>	<u>12,218</u>	<u>15,013</u>	<u>21,346</u>
Net current assets (liabilities)		<u>111,911</u>	<u>144,827</u>	<u>183,526</u>	<u>195,565</u>	<u>(8,921)</u>	<u>(10,819)</u>	<u>(14,048)</u>	<u>(19,143)</u>
Net assets (liabilities)		<u>117,234</u>	<u>150,263</u>	<u>188,044</u>	<u>199,535</u>	<u>(8,920)</u>	<u>(10,818)</u>	<u>(14,047)</u>	<u>(19,142)</u>
Capital and reserves									
Share capital	30	80,000	80,000	80,000	80,000	–	–	–	–
Retained earnings (accumulated losses)	31	<u>37,234</u>	<u>70,263</u>	<u>108,044</u>	<u>119,535</u>	<u>(8,920)</u>	<u>(10,818)</u>	<u>(14,047)</u>	<u>(19,142)</u>
Total capital and reserves (deficiencies)		<u>117,234</u>	<u>150,263</u>	<u>188,044</u>	<u>199,535</u>	<u>(8,920)</u>	<u>(10,818)</u>	<u>(14,047)</u>	<u>(19,142)</u>

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Group		
	Share capital	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 April 2016	80,000	23,605	103,605
Profit and total comprehensive income for the year	<u>—</u>	<u>13,629</u>	<u>13,629</u>
At 31 March 2017	80,000	37,234	117,234
Profit and total comprehensive income for the year	<u>—</u>	<u>33,029</u>	<u>33,029</u>
At 31 March 2018	80,000	70,263	150,263
Profit and total comprehensive income for the year	<u>—</u>	<u>37,781</u>	<u>37,781</u>
At 31 March 2019	80,000	108,044	188,044
Profit and total comprehensive income for the period	<u>—</u>	<u>11,491</u>	<u>11,491</u>
At 31 July 2019	<u>80,000</u>	<u>119,535</u>	<u>199,535</u>
Unaudited			
At 31 March 2018	80,000	70,263	150,263
Profit and total comprehensive income for the period	<u>—</u>	<u>6,121</u>	<u>6,121</u>
At 31 July 2018 (unaudited)	<u>80,000</u>	<u>76,384</u>	<u>156,384</u>

COMBINED STATEMENTS OF CASH FLOWS

	Year ended 31 March		Four months ended 31 July		
	2017	2018	2019	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
OPERATING ACTIVITIES					
Profit before taxation	18,004	39,883	45,590	7,748	14,674
Adjustments for:					
Loss (gain) in fair value change of held-for-trading investments	(5)	114	91	35	–
Interest expense	79	204	372	53	457
Depreciation of property and equipment	1,688	1,771	1,774	592	588
Reversal of impairment loss on accounts receivable arising from placing and underwriting services	–	–	(365)	–	–
Impairment loss on accounts receivable arising from placing and underwriting services	–	365	–	–	–
Dividend income	(31)	(24)	(26)	(4)	–
Bank interest income	(3)	(3)	(550)	(72)	(238)
Loss on written off of property and equipment	<u>2</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Operating cash flows before movements in working capital	19,734	42,310	46,886	8,352	15,481
(Increase) decrease in accounts receivable	(9,932)	1,396	(75,539)	(46,285)	(31,816)
(Increase) decrease in other assets	–	(101)	101	(284)	–
(Increase) decrease in deposits and prepayments	(977)	(546)	592	814	(673)
(Increase) decrease in bank balances – trust and segregated accounts	(52,919)	(29,530)	8,264	(6,021)	17,782
Decrease in held-for-trading investments	318	62	732	–	–
Increase (decrease) in accounts payable	71,141	33,790	(31,897)	(10,332)	5,516
Increase in other payables and accrued charges	<u>1,671</u>	<u>1,284</u>	<u>708</u>	<u>676</u>	<u>2,944</u>
Cash generated from (used in) operations	29,036	48,665	(50,153)	(53,080)	9,234
Bank interest received	3	3	550	72	238
Dividend received from held-for-trading investments	31	24	26	4	–
Profits tax paid	<u>(6,976)</u>	<u>(5,590)</u>	<u>(9,221)</u>	<u>–</u>	<u>–</u>
NET CASH FROM (USED IN) OPERATING ACTIVITIES	<u>22,094</u>	<u>43,102</u>	<u>(58,798)</u>	<u>(53,004)</u>	<u>9,472</u>

		Year ended		Four months ended	
		31 March		31 July	
		2017	2018	2019	2018
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
INVESTING ACTIVITY					
Purchase of property and equipment		(437)	(105)	–	–
NET CASH (USED IN) FROM INVESTING ACTIVITY		(437)	(105)	–	–
FINANCING ACTIVITIES					
Repayment of amounts due to shareholders	34	(15,000)	–	–	–
Lease payments (including interest paid)	34	(1,564)	(1,775)	(1,775)	(592)
New bank loan raised	34	–	–	30,000	5,336
Interest paid	34	–	(1)	(252)	(3)
Issue costs paid		(188)	–	(175)	(175)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(16,752)	(1,776)	27,798	4,566
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		4,905	41,221	(31,000)	(48,438)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD		15,101	20,006	61,227	61,227
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD		20,006	61,227	30,227	12,789
Represented by:					
Bank balances – general accounts and cash	24	20,006	61,227	30,227	12,789
Net cash generated by operating activities include:					
Interest income from margin clients		9,891	10,293	12,826	3,196
Interest income from cash clients		676	958	544	268
Interest income from securities dealings and margin financing services		10,567	11,251	13,370	3,464

NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1. GENERAL**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 7 June 2016. The addresses of the registered office and principal place of business of the Company is Flat 2705-6, 27/F, Tower One, Lippo Centre, 89 Queensway, Hong Kong. The Company's immediate and ultimate holding company is Man Chase Holdings Limited ("Man Chase"), a company incorporated in the British Virgin Islands ("BVI"), which is owned by Mr. Keng Lee Stephen and Ms. Yeung Lai Lai, who are independent from each other and who have always been the controlling shareholders of the Company and other entities comprising the Group.

The principal activities of the Group are the provision of securities dealing and brokerage services, placing and underwriting services, securities margin financing services and investment advisory services in Hong Kong.

2. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared based on the accounting policies set out in Note 4 which conform with HKFRSs issued by the HKICPA.

Prior to the Group Reorganisation, the Group's major operating subsidiary, Sinomax Securities was directly owned by Mr. Keng Lee Stephen and Ms. Yeung Lai Lai. In preparation for the listing of the Company's shares on the Stock Exchange, the Group underwent the following reorganisation steps which mainly involves interspersing investing holding companies between Sinomax Securities and its shareholders:

- (1) On 15 December 2015, Man Chase was incorporated in the BVI with limited liability. At the time of its incorporation, Man Chase was authorised to issue a maximum of 50,000 shares of a single class, each with a par value of US\$1.00 each, of which 60 fully paid shares had been allotted and issued to Mr. Keng Lee Stephen and 40 fully paid shares had been allotted and issued to Ms. Yeung Lai Lai.
- (2) On 1 February 2016, Smart Domain was incorporated in the BVI with limited liability. At the time of its incorporation, Smart Domain was authorised to issue a maximum of 50,000 shares of a single class, each with a par value of US\$1.00 each, of which 1 fully paid share had been allotted and issued to an initial subscriber. On 10 June 2016, such ordinary share was transferred to the Company and a further 99 fully paid shares had been allotted and issued to the Company.
- (3) On 7 June 2016, the Company was incorporated in the Cayman Islands with limited liability. At the time of its incorporation, the Company had an authorised share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each, of which one nil paid share was allotted and issued to the initial subscriber, which was transferred to Man Chase on the same date at nil paid. On 7 June 2016, 99 nil paid shares were further allotted and issued by the Company to Man Chase.
- (4) On 22 January 2020, Mr. Keng Lee Stephen and Ms. Yeung Lai Lai transferred the entire issued share capital of Sinomax Securities to Smart Domain (as a nominee of our Company) for the consideration of HK\$228,797,000, which was satisfied by (i) the Company allotting and issuing 9,900 new Shares, all credited as fully paid, to Man Chase at the directions of Mr. Keng Lee Stephen and Ms. Yeung Lai Lai; and (ii) the crediting of 100 nil-paid Shares, which were registered in the name of Man Chase, as fully paid. The above transaction was completed on 22 January 2020.

Upon completion of the above steps, the Company was owned by Mr. Keng Lee Stephen and Ms. Yeung Lai Lai through Man Chase and the Company became the holding company of the companies now comprising the Group on 22 January 2020. The Group comprising the Company and its subsidiaries resulting from the Group Reorganisation have always been and continued to be controlled by Mr. Keng Lee Stephen and Ms. Yeung Lai Lai before and after the Group Reorganisation, and is therefore regarded as a continuing entity. Accordingly, the Historical Financial Information has been prepared on the basis as if the Company had always being the holding company of the Group.

The combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Group for the Track Record Period include the results, changes in equity and cash flows of the companies now comprising the Group as if the current group structure had been in existence throughout the Track Record Period, or from the respective date of incorporation of the relevant entity, where this is a shorter period.

The combined statements of financial position of the Group as at 31 March 2017, 2018, 2019 and 31 July 2019 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as at those dates, taking into account their respective date of incorporation.

No statutory financial statements of the Company have been prepared since its date of incorporation as it is incorporated in the jurisdiction where there are no statutory audit requirements.

3. APPLICATION OF NEW AND REVISED HKFRSs

For the purposes of preparing and presenting the Historical Financial Information for the Track Record Period, except as described below, the Group has consistently applied all the HKFRSs which are effective for the Group's accounting period beginning on 1 April 2019 throughout the Track Record Period.

HKFRS 16 "Leases" replaces the previous standard HKAS 17 "Leases". The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted. The Group has elected to apply HKFRS 16 which has been applied consistently throughout the Track Record Period. The policy is described in Note 4.

Impact on changes in accounting policies

Transition and summary of effects arising from initial application of HKFRS 16

As a lessee

The Group has consistently applied HKFRS 16 throughout the Track Record Period since the date of initial application, 1 April 2016.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of HK\$1,377,000 and right-of-use assets of HK\$1,377,000 at 1 April 2016.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entity at the date of initial application. The weighted average incremental borrowing rate applied is 5.125%.

	Lease liabilities <i>HK\$'000</i>
Operating lease commitments as at 31 March 2016	1,416
Lease liabilities discounted at relevant incremental borrowing rates	<u>(39)</u>
Lease liabilities as at 1 April 2016	<u><u>1,377</u></u>
Analysed as	
Current	<u><u>1,377</u></u>
The carrying amount of right-of-use assets as at 1 April 2016 comprises the following:	
	Right-of-use assets <i>HK\$'000</i>
Right-of-use assets relating to operating leases recognised upon application of HKFRS16	<u><u>1,377</u></u>

HKFRS 9 “Financial Instruments”

The Group has adopted HKFRS 9 “Financial Instruments” since 1 April 2018. The Group has not restated financial information from 1 April 2016 to 31 March 2018 for financial instruments in the scope of HKFRS 9. The financial information from 1 April 2016 to 31 March 2018 related to the financial instruments is reported under Hong Kong Accounting Standard (“HKAS”) 39 “Financial Instruments: Recognition and Measurement” and is not comparable to the information presented for the year ended 31 March 2019 and for the four months ended 31 July 2019. The impacts relate to the classification and measurement requirements are summarised as follows:

Details of the accounting policies are disclosed in Note 4.

Classification

At the date of initial application, the Group’s financial assets previously classified as loans and receivables including bank balances, deposits and accounts receivables continued to be measured at amortised cost. There is no change in measurement basis of the financial assets.

The Group has reassessed its investments in equity securities classified as held for trading under HKAS 39 as if the Group had purchased these investments at the date of initial application. Based on the facts and circumstances as at the date of initial application, HK\$823,000 of the Group’s investments were held for trading and continued to be measured at fair value through profit or loss.

The financial liabilities of the Group continued to be classified as financial liabilities at amortised cost.

Impairment under expected credit losses ("ECL") model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for accounts receivable arising from placing and underwriting and investment advisory services. To measure the ECL, accounts receivable are assessed individually based on the Group's historical default rates or default rates by reference to the Probability of Default ("PD"), Loss Given Default ("LGD") over the expected life and is adjusted for forward-looking estimates.

Loss allowances for accounts receivable arising from the business of dealing in securities and other financial assets at amortised cost mainly comprise of bank balance and deposits are measured on 12-month ECL ("12m ECL") ("Stage 1") basis when there had been no significant increase in credit risk since initial recognition, and certain accounts receivable arising from the business of dealing in securities which are assessed and measured on lifetime ECL basis when the credit risk had increased significantly ("Stage 2") or assessed to be credit-impaired ("Stage 3") since initial recognition.

As at 1 April 2018, the management estimated that the additional credit loss allowance to be recognised is immaterial and accordingly, no adjustment was made against retained earnings as at 1 April 2018.

All loss allowances for accounts receivable as at 31 March 2018 are reconciled to the opening loss allowances as at 1 April 2018 as follows:

	Accounts receivable HK\$'000
At 31 March 2018 – HKAS 39	146
Amounts written off (<i>Note</i>)	<u>(146)</u>
At 1 April 2018	<u><u>–</u></u>

Note: Amounts written off resulted from refinement of write-off policy on the initial application of HKFRS 9.

New and revised to HKFRS in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs and interpretations ("new and revised HKFRSs") that have been issued at the date of this report but are not yet effective:

HKFRS 17	Insurance Contracts ³
Amendments to HKFRS 3	Definition of a Business ⁴
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKAS 1 and HKAS 8	Definition of Material ¹
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform ¹

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after a date to be determined

³ Effective for annual periods beginning on or after 1 January 2021

⁴ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

The directors of the Company anticipate that the application of the new and revised HKFRSs will have no material impact on the Group's financial position and financial performance in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with accounting policies which conform with HKFRSs issued by HKICPA. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below:

Basis of combination

The Historical Financial Information incorporates the financial statements of the Company and companies controlled by the Company and its subsidiaries. Control is achieved when a Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Combination of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specially, income and expenses of a subsidiary acquired or disposed of during the year are included in the combined statement of profit or loss and other comprehensive income from the date of the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on combination.

Revenue from contracts with customers

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs (including commission expenses) as an asset if it expects to recover these costs. The asset so recognised is subsequently charged to profit or loss at the point when the revenue relating to the relevant contracts is recognised in profit or loss.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial assets or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income which are derived from the Group's ordinary course of business are presented as revenue.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 3)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income (“FVTOCI”):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at financial assets at fair value through profit or loss (“FVTPL”), except that at the date of initial application/initial recognition of a financial asset, the Group may irrevocably elect to present subsequent changes in fair value of equity investment in other comprehensive income (“OCI”) if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combinations to which HKFRS 3 “Business Combinations” applies.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the “other gains and losses” line item.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with Note 3)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9, including accounts receivable, deposits, bank balances. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for accounts receivable arising from placing and underwriting and investment advisory services. To measure the ECL, accounts receivable are assessed individually based on the Group's historical default rates or default rates by reference to the PD, LGD over the expected life and is adjusted for forward-looking estimates.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due except for accounts receivable arising from the business of dealing in securities where a shorter period of "past due" has been applied by the directors in view of the nature of business operation and practice in managing the credit risk, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a bank balances has not increased significantly since initial recognition if the bank balances are determined to have low credit risk at the reporting date. A bank balance is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a bank balance to have low credit risk when it has a higher external credit-ratings assigned by the international credit-rating agencies.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers the event of default occurs when the information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

In respect of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due except for accounts receivable arising from the business of dealing in securities where a shorter period of "past due" has been applied by the directors in view of the nature of business operation and practice in managing the credit risk, unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of accounts receivable, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the PD, LGD (i.e. the magnitude of the loss if there is a default) and the Exposure at Default ("EAD"). The assessment of the PD and LGD is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of accounts receivable where the corresponding adjustment is recognised through a loss allowance account.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 April 2018)

The Group's financial assets are classified into financial assets at FVTPL and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is held for trading or designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the "other gains and losses" line item. Fair value is determined in the manner described in Note 36.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, accounts receivable, deposits and bank balances and cash are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets (before application of HKFRS 9 on 1 April 2018)

Financial assets, other than those at FVTPL are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For impairment assessment, each receivable is reviewed individually at the end of each month. The Group has a policy for determining the allowance for impairment based on the evaluation of ageing analysis of accounts and management's judgement, including the current creditworthiness, collateral, subsequent settlement and the past collection history of each client.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When an accounts receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises it retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue cost.

Financial liabilities at amortised cost

Financial liabilities including accounts payable, other payables, bank borrowings and amount due to related companies are subsequently measured at amortised cost, using the effective interest method.

The financial liabilities of the Group are all carried at amortised cost.

Derecognition of financial liabilities

The Group derecognises financial liability when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Offsetting

A financial asset and a financial liability is offset and the net amount presented in the combined statements of financial position when, and only when the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Intangible assets***Intangible assets acquired separately***

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses (see the accounting policy in respect of impairment of non-financial assets below).

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of asset is estimated in order to determine the extent of the impairment loss, if any. Intangible asset with indefinite useful lives is tested for impairment at least annually, and whenever there is an indication that they may be impaired.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from “profit before taxation” as reported in the combined statements of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the combined financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Property and equipment

Property and equipment are stated in the combined statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property and equipment less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised in profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Lease

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases and leases of low-value assets

The Group applies the recognition exemption for lease of low-value assets. Lease payments on leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use asset is depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets in “property and equipment”, the same line item as that within which the corresponding underlying assets would be presented if they were owned.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKAS 39/HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liability measured at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;

- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, the amount of lease liability is adjusted by interest accretion and lease payments.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currency are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages, salaries and annual leave) after deducting any amount already paid.

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Estimated impairment loss on accounts receivable

Prior to the application of HKFRS 9, the Group periodically reviews its accounts receivable to assess whether impairment loss exist. In determining whether impairment loss should be recorded in the statement of profit or loss and other comprehensive income, the Group has individually evaluated its accounts receivable for impairment after taking into account the value of the underlying collateral of each borrower, and other information available of those borrowers in default of settlement to determine the net present value of expected future cash inflow. If the financial conditions of the clients of the Group were to deteriorate, resulting in an impairment of their ability to make repayments, additional impairment loss may be required.

Since the adoption of HKFRS 9 on 1 April 2018, the management of the Group estimates the amount of impairment loss for ECL on accounts receivable based on the credit risk of accounts receivable. In applying the accounting requirements for measuring ECL, the management exercised significant judgements in determining criteria for significant increase in credit risk, selecting appropriate models and assumptions for the measurement of ECL.

As at 31 March 2017, 2018, 2019 and 31 July 2019, the carrying amount of accounts receivable are HK\$ 130,544,000, HK\$128,783,000 and HK\$204,687,000 and HK\$236,503,000, net of allowance for doubtful debts of HK\$146,000, HK\$511,000, HK\$nil and HK\$nil respectively.

Details of the impairment assessment of accounts receivable are disclosed in Note 36.

Estimated impairment of intangible asset

Determining whether intangible asset is impaired requires an estimation of the value in use of the cash flow projection to which intangible asset has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to generate in the cash flow projection and a suitable discount rate and growth rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 March 2017, 2018, 2019 and 31 July 2019, the carrying value of intangible asset amounted to HK\$2,735,000. Details of the recoverable amount calculation are disclosed in Note 19.

6. REVENUE

	Year ended 31 March			Four months ended 31 July	
	2017	2018	2019	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Fee and commission income					
Commission and brokerage income on securities dealing in:					
– Market in Hong Kong	16,634	30,753	21,258	5,683	6,984
– Market outside Hong Kong	17	378	67	–	17
Placing and underwriting services income	7,849	12,894	28,826	6,278	12,713
Handling and other fee income	589	932	1,512	345	369
Investment advisory services fee income	–	514	242	178	–
	<u>25,089</u>	<u>45,471</u>	<u>51,905</u>	<u>12,484</u>	<u>20,083</u>
Interest income					
Interest income from:					
– Margin clients	9,891	10,293	12,826	3,196	5,247
– Cash clients	676	958	544	268	136
	<u>10,567</u>	<u>11,251</u>	<u>13,370</u>	<u>3,464</u>	<u>5,383</u>
	<u>35,656</u>	<u>56,722</u>	<u>65,275</u>	<u>15,948</u>	<u>25,466</u>

Disaggregation of fee and commission income from contracts with customers

	Year ended 31 March			Four months ended 31 July	
	2017	2018	2019	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Timing of revenue recognition					
A point in time	25,074	44,941	51,421	12,297	20,003
Over time	<u>15</u>	<u>530</u>	<u>484</u>	<u>187</u>	<u>80</u>
	<u>25,089</u>	<u>45,471</u>	<u>51,905</u>	<u>12,484</u>	<u>20,083</u>

Performance obligations for contracts with customers***Broking services***

The Group provides broking services to customers on securities trading. Commission income is recognised at a point in time on the execution date of the trades at a certain percentage of the transaction value of the trades executed.

Placing and underwriting services

The Group provides underwriting, sub-underwriting and placing services to customers. Revenue is recognised at a point in time when the relevant underwriting, sub-underwriting and placing activities are completed. Payments are received in accordance to the completion of relevant underwriting, sub-underwriting and placing activities as specified in the agreement. The period from satisfaction of the performance obligation to receipt of consideration is usually within one year or less.

Investment advisory services

The Group provide investment advisory services by providing monthly investment advisory reports to customers and meet with the customers from time to time to discuss the investment portfolio. Under the agreement signed with the customers, the Group is entitled to the fixed monthly service fees. Based on the agreement, the customers can simultaneously receive and consume the investment advisory services provided by the Group. Accordingly, the revenue is recognised over time. Investment advisory service fee income is charged at a fixed amount per month for managing the investment portfolio of each client. The Group receives payment within a short period of time after satisfying its performance obligation under determined payment terms.

Handling and other services

The Group provides services in securities trading and customer's account handling. Handling and other services fee income are recognised when the transaction are executed and services are completed.

The Group provides custodian services for securities customer accounts. The customers simultaneously receives and consumes the benefit provided by the Group, hence the revenue is recognised as a performance obligation satisfied over time.

Transaction price allocated to the remaining performance obligation for contracts with customers

The Group applied the practical expedient for contracts with original expected duration less than one year, and did not disclose the aggregate amount of transaction price allocated to performance obligations of the broking services, placing and underwriting services and handling and other services that are unsatisfied (or partly unsatisfied). In addition, the Group applied the practical expedient by recognising revenue in the amount to which the Group has right to invoices. As permitted under HKFRS 15, the transaction price allocated to performance obligations of the investment advisory services is not disclosed.

7. SEGMENT INFORMATION

The Group's operating segment is determined based on information reported to the executive directors of Sinomax Securities, being the chief operating decision makers ("CODM"), for the purpose of resource allocation and assessment of segment performance.

The Group's reportable and operating segments under HKFRS 8 are as follows:

- (a) the brokerage services segment comprises the provision of broking services in securities traded in Hong Kong and overseas markets;
- (b) the margin financing services segment comprises the provision of financing services to margin and cash clients;
- (c) the placing and underwriting services segment comprises the provision of underwriting, sub-underwriting and placing services; and
- (d) the investment advisory services segment comprises the provision of investment advisory services.

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 4. Segment profit represents the profit earned by each segment without allocation of other income, other gains and losses, certain staff costs, certain finance costs, depreciation, listing expenses, other expenses and certain other operating expenses. No inter-segment revenues are charged among segments.

Year ended 31 March 2017

	Brokerage services HK\$'000	Margin financing services HK\$'000	Placing and underwriting services HK\$'000	Investment advisory services HK\$'000	Total HK\$'000
Segment revenue	17,240	10,567	7,849	–	35,656
Segment profit	15,947	10,567	6,707	(267)	32,954
Other income and gains/(losses), net					492
Certain staff costs					(2,286)
Certain finance costs					(79)
Depreciation					(1,688)
Listing expenses					(96)
Other expenses					(8,824)
Certain other operating expenses					(2,469)
Profit before tax					18,004
Other segment information:					
Interest income from clients	–	10,567	–	–	10,567
Interest on bank borrowings and bank overdrafts	–	–	–	–	–
Commission expenses	(382)	–	(917)	–	(1,299)

Year ended 31 March 2018

	Brokerage services HK\$'000	Margin financing services HK\$'000	Placing and underwriting services HK\$'000	Investment advisory services HK\$'000	Total HK\$'000
Segment revenue	<u>32,063</u>	<u>11,251</u>	<u>12,894</u>	<u>514</u>	<u>56,722</u>
Segment profit	<u>29,959</u>	<u>11,250</u>	<u>8,310</u>	<u>(43)</u>	<u>49,476</u>
Other income and gains/(losses), net					4
Certain staff costs					(3,247)
Certain finance costs					(203)
Depreciation					(1,771)
Listing expenses					(1,896)
Certain other operating expenses					<u>(2,480)</u>
Profit before tax					<u>39,883</u>
Other segment information:					
Interest income from clients	<u>–</u>	<u>11,251</u>	<u>–</u>	<u>–</u>	<u>11,251</u>
Interest on bank borrowings and bank overdrafts	<u>–</u>	<u>(1)</u>	<u>–</u>	<u>–</u>	<u>(1)</u>
Commission expenses	<u>(773)</u>	<u>–</u>	<u>(3,854)</u>	<u>–</u>	<u>(4,627)</u>
Impairment loss	<u>–</u>	<u>–</u>	<u>(365)</u>	<u>–</u>	<u>(365)</u>

Year ended 31 March 2019

	Brokerage services HK\$'000	Margin financing services HK\$'000	Placing and underwriting services HK\$'000	Investment advisory services HK\$'000	Total HK\$'000
Segment revenue	<u>22,837</u>	<u>13,370</u>	<u>28,826</u>	<u>242</u>	<u>65,275</u>
Segment profit	<u>19,686</u>	<u>13,118</u>	<u>24,264</u>	<u>(4)</u>	<u>57,064</u>
Other income and gains/(losses), net					471
Certain staff costs					(3,959)
Certain finance costs					(120)
Depreciation					(1,774)
Listing expenses					(1,891)
Other expenses					(1,289)
Certain other operating expenses					<u>(2,912)</u>
Profit before tax					<u><u>45,590</u></u>
Other segment information:					
Interest income from clients	<u><u>–</u></u>	<u><u>13,370</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>13,370</u></u>
Interest on bank borrowings and bank overdrafts	<u><u>–</u></u>	<u><u>(252)</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>(252)</u></u>
Commission expenses	<u><u>(1,427)</u></u>	<u><u>–</u></u>	<u><u>(4,567)</u></u>	<u><u>–</u></u>	<u><u>(5,994)</u></u>
Impairment loss reversal	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>365</u></u>	<u><u>–</u></u>	<u><u>365</u></u>

Four months ended 31 July 2018 (unaudited)

	Brokerage services <i>HK\$'000</i>	Margin financing services <i>HK\$'000</i>	Placing and underwriting services <i>HK\$'000</i>	Investment advisory services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue	<u>6,028</u>	<u>3,464</u>	<u>6,278</u>	<u>178</u>	<u>15,948</u>
Segment profit	<u>5,373</u>	<u>3,461</u>	<u>4,275</u>	<u>(32)</u>	<u>13,077</u>
Other income and gains/(losses), net					88
Certain staff costs					(1,290)
Certain finance costs					(50)
Depreciation					(592)
Listing expenses					(1,158)
Other expenses					(1,289)
Certain other operating expenses					<u>(1,038)</u>
Profit before tax					<u><u>7,748</u></u>
Other segment information:					
Interest income from clients	<u><u>-</u></u>	<u><u>3,464</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>3,464</u></u>
Interest on bank borrowings and bank overdrafts	<u><u>-</u></u>	<u><u>(3)</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>(3)</u></u>
Commission expenses	<u><u>(209)</u></u>	<u><u>-</u></u>	<u><u>(1,883)</u></u>	<u><u>-</u></u>	<u><u>(2,092)</u></u>

Four months ended 31 July 2019

	Brokerage services HK\$'000	Margin financing services HK\$'000	Placing and underwriting services HK\$'000	Investment advisory services HK\$'000	Total HK\$'000
Segment revenue	7,370	5,383	12,713	–	25,466
Segment profit	6,610	4,947	11,426	–	22,983
Other income and gains/(losses), net					168
Certain staff costs					(1,694)
Certain finance costs					(21)
Depreciation					(588)
Listing expenses					(5,096)
Certain other operating expenses					(1,078)
Profit before tax					<u>14,674</u>
Other segment information:					
Interest income from clients	–	5,383	–	–	5,383
Interest on bank borrowings and bank overdrafts	–	(436)	–	–	(436)
Commission expenses	(123)	–	(1,167)	–	(1,290)

The CODM makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment.

Geographical information

The Group's operations are principally located in the Hong Kong and all of the Group's revenue and non-current assets are derived from Hong Kong.

Information about major customers

Revenue from major customers contributing over 10% of the total revenue of the Group are as follows:

	Year ended 31 March			Four months ended 31 July	
	2017	2018	2019	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Customer A ¹	–	–	8,568	–	–
Customer B ¹	–	–	–	2,500	–
Customer C ¹	–	–	–	–	5,000

¹ Revenue from placing and underwriting services income

No other single customer contributed 10% or more to the Group's revenue during the years ended 31 March 2017, 2018, 2019 and four months ended 31 July 2018 (unaudited) and 2019 respectively.

8. OTHER GAINS AND LOSSES

	Year ended 31 March			Four months ended 31 July	
	2017	2018	2019	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Fair value gain (loss) on held-for-trading investments	5	(114)	(91)	(35)	–
Loss on written off of property and equipment	(2)	–	–	–	–
Exchange loss	–	–	(81)	(2)	(87)
	<u>3</u>	<u>(114)</u>	<u>(172)</u>	<u>(37)</u>	<u>(87)</u>

9. OTHER INCOME

	Year ended 31 March			Four months ended 31 July	
	2017	2018	2019	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Bank interest income	3	3	550	72	238
Dividend income	31	24	26	4	–
Sundry income	455	91	67	49	17
	<u>489</u>	<u>118</u>	<u>643</u>	<u>125</u>	<u>255</u>

10. STAFF COSTS

	Year ended 31 March			Four months ended 31 July	
	2017	2018	2019	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Directors' remuneration					
– fees	–	–	–	–	–
– salaries, discretionary bonus and other benefits	492	612	881	180	526
– contributions to the retirement benefit scheme	19	18	32	6	12
Salaries, discretionary bonus and other benefits	2,531	3,898	4,193	1,542	1,531
Contributions to the retirement benefit scheme	144	169	162	59	57
	<u>3,186</u>	<u>4,697</u>	<u>5,268</u>	<u>1,787</u>	<u>2,126</u>

11. FINANCE COSTS

	Year ended 31 March			Four months ended 31 July	
	2017	2018	2019	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Interest on bank borrowings and bank overdrafts	–	1	252	3	436
Interest on lease liabilities	79	203	120	50	21
	<u>79</u>	<u>204</u>	<u>372</u>	<u>53</u>	<u>457</u>

12. IMPAIRMENT LOSS, NET OF REVERSAL

	Year ended 31 March			Four months ended 31 July	
	2017	2018	2019	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Impairment loss (recognised) reversed on:					
– Accounts receivable arising from placing and underwriting services	–	(365)	365	–	–
	<u>–</u>	<u>(365)</u>	<u>365</u>	<u>–</u>	<u>–</u>

13. PROFIT BEFORE TAXATION

	Year ended 31 March			Four months ended 31 July	
	2017	2018	2019	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Profit before taxation has been arrived at after charging:					
Auditor's remuneration	150	250	580	193	254
Other expenses (<i>Note a</i>)	8,824	–	1,289	1,289	–
	<u>8,824</u>	<u>–</u>	<u>1,289</u>	<u>1,289</u>	<u>–</u>

Note:

- (a) During the years ended 31 March 2017, 2018, 2019 and four months ended 31 July 2018 and 2019, the other expenses of HK\$8,824,000, HK\$nil, HK\$1,289,000, HK\$1,289,000 (unaudited) and HK\$nil respectively was incurred in an earlier attempt of proposed listing of the Company that can no longer be leveraged on.

14. TAXATION

	Year ended 31 March			Four months ended 31 July	
	2017	2018	2019	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Hong Kong Profits Tax:					
Current tax	4,379	6,863	7,800	1,618	3,183
(Over)underprovision in prior year	(4)	(9)	9	9	–
	<u>4,375</u>	<u>6,854</u>	<u>7,809</u>	<u>1,627</u>	<u>3,183</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit during the Track Record Period. In accordance with the 2016-17 Budget, 2017-18 Budget and 2018-19 Budget presented by the Financial Secretary of the Government of the Hong Kong Special Administrative Region of the People's Republic of China, it was proposed that the Hong Kong Profits Tax for the years of assessment 2016/2017, 2017/2018 and 2018/2019 be reduced by 75%, subject to a ceiling of HK\$20,000, HK\$30,000 and HK\$20,000 per case in each of the years ended 31 March 2017, 2018 and 2019 respectively. A subsidiary of the Group operating in Hong Kong enjoyed such tax concessions.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The taxation for the Track Record Period can be reconciled to the profit before taxation per the combined statements of profit or loss and other comprehensive income as follows:

	Year ended 31 March			Four months ended 31 July	
	2017	2018	2019	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Profit before taxation	<u>18,004</u>	<u>39,883</u>	<u>45,590</u>	<u>7,748</u>	<u>14,674</u>
Tax at income tax rate of 16.5%	2,971	6,581	7,522	1,278	2,421
Tax effect of expenses not deductible for tax purpose	1,481	312	527	406	855
Tax effect of income not taxable for tax purpose	(5)	(5)	(95)	(14)	(41)
(Over) underprovision in prior year	(4)	(9)	9	9	–
Tax effect of profit under tax concessions	(20)	(30)	(185)	(62)	(55)
Others	<u>(48)</u>	<u>5</u>	<u>31</u>	<u>10</u>	<u>3</u>
Taxation for the year/period	<u>4,375</u>	<u>6,854</u>	<u>7,809</u>	<u>1,627</u>	<u>3,183</u>

As at 31 March 2017, 2018, 2019 and 31 July 2019, the Group has no unused tax losses available for offset against future profits.

15. DIRECTORS', CHIEF EXECUTIVE AND FIVE HIGHEST PAID INDIVIDUALS

The remuneration of the executive directors and non-executive director appointed by the Company on 7 June 2016 and 16 January 2019 paid or payable by the entities comprising the Group for the services provided to the Group (including emoluments for services as directors of the group entities prior to becoming the directors of the Company) during the Track Record Period:

Directors' and Chief Executive's emoluments***Year ended 31 March 2017***

	Non- executive Director Keng Lee Stephen HK\$'000	Executive Director Sy Man Chiu HK\$'000	Total HK\$'000
Fees	–	–	–
Salaries and other benefits	–	492	492
Discretionary bonus	–	–	–
Contribution to retirement benefit scheme	–	19	19
	<u>–</u>	<u>19</u>	<u>19</u>
Total emoluments	<u>–</u>	<u>511</u>	<u>511</u>

Year ended 31 March 2018

	Non- executive Director Keng Lee Stephen HK\$'000	Executive Director Sy Man Chiu HK\$'000	Total HK\$'000
Fees	–	–	–
Salaries and other benefits	–	492	492
Discretionary bonus	–	120	120
Contribution to retirement benefit scheme	–	18	18
	<u>–</u>	<u>18</u>	<u>18</u>
Total emoluments	<u>–</u>	<u>630</u>	<u>630</u>

Year ended 31 March 2019

	Non-executive Director Keng Lee Stephen HK\$'000	Executive Directors Sy Man Chiu HK\$'000	Ng Sik Chiu HK\$'000	Total HK\$'000
Fees	–	–	–	–
Salaries and other benefits	–	540	341	881
Discretionary bonus	–	–	–	–
Contribution to retirement benefit scheme	–	18	14	32
Total emoluments	–	558	355	913

Four months ended 31 July 2018 (unaudited)

	Non-executive Director Keng Lee Stephen HK\$'000	Executive Director Sy Man Chiu HK\$'000	Total HK\$'000
Fees	–	–	–
Salaries and other benefits	–	180	180
Discretionary bonus	–	–	–
Contribution to retirement benefit scheme	–	6	6
Total emoluments	–	186	186

Four months ended 31 July 2019

	Non-executive Director Keng Lee Stephen HK\$'000	Executive Directors Sy Man Chiu HK\$'000	Ng Sik Chiu HK\$'000	Total HK\$'000
Fees	–	–	–	–
Salaries and other benefits	–	274	252	526
Discretionary bonus	–	–	–	–
Contribution to retirement benefit scheme	–	6	6	12
Total emoluments	–	280	258	538

Mr. Ng Sik Chiu and Mr. Sy Man Chiu were appointed as executive directors of the Company and Mr. Keng Lee Stephen was appointed as non-executive director of the Company on 16 January 2019, 7 June 2016 and 7 June 2016 respectively. Mr. Sy Man Chiu is also the chief executive officer of the Company and his emoluments disclosed above include those for services rendered by him as the director of Sinomax Securities during the Track Record Period.

Discretionary bonus is determined as regard to the Group's operating results and individual performance.

The balances shown above were for their services in connection with the management of the affairs of the Group.

Dr. Yu Sun Say, Dr. Ho Chung Tai Raymond and Mr. Lai Man Sing were appointed as the Independent Non-Executive Directors of the Company on 22 January 2020. In addition, Ms. Yeung Lai Lai and Mr. Li Qing Feng have acted as directors of Sinomax Securities and they have not received any fees or emolument in respect of their role as such during the Track Record Period.

During the Track Record Period, no emoluments were paid by the Group to any of the directors or the chief executive of the Company as an inducement to joint or upon joining the Group or as compensation for loss of office. None of the directors or the chief executive of the Company waived or agreed to waive any emolument during the Track Record Period.

Five highest paid individuals

The five highest paid individuals included one, one, one, one (unaudited) and two directors during each of the years ended 31 March 2017, 2018, 2019 and four months ended 31 July 2018 and 2019, and details of whose emoluments were disclosed above. Details of the emoluments for the remaining four, four, four, four (unaudited) and three highest paid individuals for each of the years ended 31 March 2017, 2018, 2019 and four months ended 31 July 2018 and 2019, are as follows:

	Year ended 31 March			Four months ended 31 July	
	2017	2018	2019	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Salaries, commission and allowances	1,856	5,296	6,648	2,620	1,761
Discretionary bonus	–	100	–	–	–
Contributions to retirement benefit scheme	36	71	72	24	18
	<u>1,892</u>	<u>5,467</u>	<u>6,720</u>	<u>2,644</u>	<u>1,779</u>

Their emoluments were within the following bands:

	Number of employees				
	Year ended 31 March		2019	Four months ended 31 July	
	2017	2018		2018	2019
Nil to HK\$1,000,000	3	3	3	3	2
HK\$1,000,001 to HK\$1,500,000	1	–	–	–	1
HK\$2,000,001 to HK\$2,500,000	–	–	–	1	–
HK\$4,000,001 to HK\$4,500,000	–	1	–	–	–
HK\$4,500,001 to HK\$5,000,000	–	–	1	–	–
	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>3</u>

During the Track Record Period, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

16. EARNINGS PER SHARE

No earnings per share information is presented for the purpose of this report as its inclusion is not considered meaningful having regard to the Reorganisation of the Group and the result of the Group for the Track Record Period that is prepared on a combined basis as set out in Note 2.

17. DIVIDENDS

No dividend has been paid or declared by the Company since its date of incorporation or other group entities during the Track Record Period.

18. PROPERTY AND EQUIPMENT

	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Computer HK\$'000	Leasehold improvements HK\$'000	Sub-total HK\$'000	Right-of-use assets HK\$'000	Total HK\$'000
COST							
At 1 April 2016	143	182	1,097	283	1,705	1,377	3,082
Additions	253	10	77	97	437	4,853	5,290
Written off	(93)	(123)	(938)	(283)	(1,437)	(1,377)	(2,814)
At 31 March 2017	303	69	236	97	705	4,853	5,558
Additions	-	-	105	-	105	-	105
Written off	-	-	(77)	-	(77)	-	(77)
At 31 March 2018 and 31 March 2019	303	69	264	97	733	4,853	5,586
Additions	-	-	40	-	40	-	40
At 31 July 2019	303	69	304	97	773	4,853	5,626
ACCUMULATED DEPRECIATION							
At 1 April 2016	143	159	1,074	283	1,659	-	1,659
Provided for the year	4	7	27	3	41	1,647	1,688
Eliminated on written off	(92)	(122)	(938)	(283)	(1,435)	(1,377)	(2,812)
At 31 March 2017	55	44	163	3	265	270	535
Provided for the year	50	9	63	32	154	1,617	1,771
Eliminated on written off	-	-	(77)	-	(77)	-	(77)
At 31 March 2018	105	53	149	35	342	1,887	2,229
Provided for the year	51	8	66	32	157	1,617	1,774
At 31 March 2019	156	61	215	67	499	3,504	4,003
Provided for the period	17	3	19	10	49	539	588
At 31 July 2019	173	64	234	77	548	4,043	4,591
CARRYING VALUES							
At 31 March 2017	248	25	73	94	440	4,583	5,023
At 31 March 2018	198	16	115	62	391	2,966	3,357
At 31 March 2019	147	8	49	30	234	1,349	1,583
At 31 July 2019	130	5	70	20	225	810	1,035

The above items of property and equipment are depreciated on a straight-line basis as follows:

Furniture and fixtures	5 years
Office equipment	5 years
Computer	3 years
Leasehold improvements	5 years or over of the lease terms, whichever is shorter
Right-of-use assets	Over of the lease terms

During the year ended 31 March 2017, the Company moved to another office, this resulted in an addition to right-of-use assets of HK\$4,853,000.

19. INTANGIBLE ASSET

HK\$'000

COST

At 1 April 2016, 31 March 2017, 2018, 2019 and 31 July 2019	<u>3,250</u>
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AMORTISATION

At 1 April 2016, 31 March 2017, 2018, 2019 and 31 July 2019	<u>(515)</u>
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CARRYING VALUES

At 1 April 2016, 31 March 2017, 2018, 2019 and 31 July 2019	<u><u>2,735</u></u>
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As at 31 March 2017, 2018, 2019 and 31 July 2019, intangible asset represents a trading right in the Stock Exchange of Hong Kong Limited (the "SEHK"). Previously, the trading right was considered to have a definite estimated useful life and was amortised over its estimated useful life. Subsequently, the director performed a review of the accounting estimates and considered that such trading right has no foreseeable limit to the period over which the Group can use to generate net cash flows. As a result, prior to the Track Record Period, the trading rights was reconsidered by the management of the Group as having an indefinite useful life because it was expected to contribute to net cash inflows indefinitely. Therefore, the trading right ceased to be amortised, instead, it is tested for impairment annually and whenever there is an indication that it may be impaired.

As the trading right is not transferable, the recoverable amounts of the trading right held by the Group has been determined with reference to the recoverable amounts based on a value-in-use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period and at a pre-tax discount rate of 13.84%, 13.34%, 12.19% and 11.54% and growth rate are 0%, 9%, 9% and 9% for the years ended 2017, 2018, 2019 and four months ended 31 July 2019 respectively. The cash flows projections beyond the 5-year period are extrapolated using a steady 1% growth rate. A key assumption for the value-in-use calculation is the growth rate as 0%, 9%, 9% and 9% for the years ended 2017, 2018, 2019 and four months ended 31 July 2019 respectively, which is determined based on management's expectations for the market development.

The table below sets out the sensitivity analysis of the impact of variations in each of the key assumptions, namely the discount rate and the growth rate, on the recoverable amount of the cash-generating unit, where the headroom represents the excess of the recoverable amount over the carrying amount of the trading right.

Headroom

	As at 31 March			As at 31 July 2019
	2017	2018	2019	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Change in discount rate increase (decrease)				
2%	58,654	224,085	121,683	114,075
1%	62,734	241,046	131,842	124,142
0%	67,447	260,780	143,831	136,129
(1%)	72,953	284,022	158,189	150,641
(2%)	79,472	311,792	175,690	168,565

Headroom

	As at 31 March			As at 31 July 2019
	2017	2018	2019	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Change in growth rate increase (decrease)				
(10%)	43,883	174,949	95,144	86,757
(5%)	54,585	214,174	117,355	109,318
0%	67,447	260,780	143,831	136,129
5%	82,808	315,820	175,190	167,807
10%	101,039	380,452	212,110	205,032

Management believes that any reasonably possible change in any of the assumptions would not cause the aggregate recoverable amount of the trading right to fall below the aggregate carrying amount of the trading right.

20. OTHER ASSETS

	As at 31 March			As at 31 July 2019
	2017	2018	2019	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The SEHK				
– Compensation Fund deposits	50	50	50	50
– Fidelity Fund deposits	50	50	50	50
Hong Kong Securities Clearing Company Limited (“HKSCC”)				
– Admission fees	50	50	50	50
– Guarantee Fund contribution	50	151	50	50
	<u>200</u>	<u>301</u>	<u>200</u>	<u>200</u>

Balances represent statutory deposits with the SEHK and HKSCC which are non-interest bearing.

21. ACCOUNTS RECEIVABLE

	As at 31 March			As at
	2017	2018	2019	31 July
	HK\$'000	HK\$'000	HK\$'000	2019
				HK\$'000
Accounts receivable arising from the business of dealing in securities (<i>Note a</i>)				
– HKSCC	21,578	17,308	7,058	35,246
– Cash clients	25,510	23,490	9,476	3,756
– Margin clients	82,032	86,229	184,914	192,077
– Brokers	273	–	823	–
Accounts receivable arising from placing and underwriting services (<i>Note b</i>)	1,297	2,185	2,416	5,424
Accounts receivable arising from investment advisory services (<i>Note c</i>)	–	82	–	–
	130,690	129,294	204,687	236,503
Less: allowance for doubtful debts				
– accounts receivable arising from the business of dealing in securities	(146)	(146)	–	–
– accounts receivable arising from placing and underwriting services	–	(365)	–	–
	<u>130,544</u>	<u>128,783</u>	<u>204,687</u>	<u>236,503</u>

Notes:

- (a) The normal settlement terms of accounts receivable from cash clients and securities clearing house are two days after trade date. In respect of accounts receivable from cash clients which are past due at the end of the reporting period, the aging analysis (from settlement date) is as follows:

	As at 31 March			As at
	2017	2018	2019	31 July
	HK\$'000	HK\$'000	HK\$'000	2019
				HK\$'000
0 – 30 days	13,222	6,855	7,905	233
31 – 60 days	2	9	448	76
61 – 90 days	29	1	1	2,110
Over 90 days	<u>104</u>	<u>57</u>	<u>108</u>	<u>111</u>
	<u>13,357</u>	<u>6,922</u>	<u>8,462</u>	<u>2,530</u>

The accounts receivable from cash clients with a carrying amount of HK\$12,007,000 and HK\$16,422,000 are neither past due and aged within 2 days as at 31 March 2017 and 2018 respectively, and the directors of the Company are of the opinion that the amounts are recoverable.

Impairment allowance of HK\$146,000 and HK\$146,000 as at 31 March 2017 and 2018 respectively have been made for accounts receivable from cash clients. The directors of the Company have individually evaluated their accounts receivable for impairment after taking into account the value of the underlying collateral of each borrower, and other information available of those borrowers in default of settlement to determine the net present value of expected future cash inflow.

Movements in the allowance for doubtful debts in respect of accounts receivable of cash clients are as follows:

	As at 31 March	
	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Opening	<u>146</u>	<u>146</u>
Closing	<u><u>146</u></u>	<u><u>146</u></u>

Accounts receivable of securities margin clients are secured by clients' pledged securities with fair value of HK\$874,203,000, HK\$824,053,000, HK\$821,256,000 and HK\$782,924,000 as at 31 March 2017, 2018, 2019 and 31 July 2019 respectively. All of the pledged securities are equity and debt securities listed in Hong Kong and overseas. The accounts receivable of securities margin clients are repayable on demand subsequent to settlement date and carrying interest typically at Hong Kong Prime rate + 2% per annum as at 31 March 2017, 2018, 2019 and 31 July 2019 (and in some cases the rate may go up to 21.6% per annum). Securities are assigned with specific margin ratios for calculating their margin values. Additional funds or collateral are required if the outstanding amount exceeds the eligible margin value of securities deposited. The collateral held can be repledged and can be sold at the Group's discretion to settle any outstanding amount owed by margin clients.

The Group has concentration of credit risk as 68%, 63%, 63% and 68% as at 31 March 2017, 2018, 2019 and 31 July 2019 respectively, of the total loans to securities margin clients was due from the Group's ten largest securities margin clients. The balance includes an aggregate amount of HK\$55,701,000, HK\$53,976,000, HK\$116,889,000 and HK\$129,718,000 as at 31 March 2017, 2018, 2019 and 31 July 2019 respectively, which is not past due, of which the whole amount is secured by clients' pledged securities with an aggregate fair value of HK\$782,751,000, HK\$192,225,000, HK\$586,385,000 and HK\$483,628,000 at the end of each reporting period respectively. The directors of the Company believes that the amount is considered recoverable given the collateral is sufficient to cover the entire balance on individual basis. No ageing analysis is disclosed, as in the opinion of the directors of the Company, the ageing analysis does not give additional value in view of the nature of business of securities margin financing.

The Group has a policy for determining the allowance for impairment based on the management's judgement, including the current creditworthiness, collateral, subsequent settlement and the past collection history of each client.

Details of the credit risk profile disclosure and movements in the allowance for impairment for the year ended 31 March 2019 and four months ended 31 July 2019 are set out in "credit risk and impairment assessment" in Note 36.

Included in accounts receivable from cash and margin clients arising from the business of dealing in securities are amounts due from certain related parties. The details are as follows:

Name	Balance at 1 April 2016 HK\$'000	Balance at 31 March and 1 April 2017 HK\$'000	Balance at 31 March and 1 April 2018 HK\$'000	Balance at 31 March 2019 HK\$'000	Balance at 31 July 2019 HK\$'000	Maximum amount outstanding during the year ended 31 March 2017 HK\$'000	Maximum amount outstanding during the year ended 31 March 2018 HK\$'000	Maximum amount outstanding during the year ended 31 March 2019 HK\$'000	Maximum amount outstanding during the period ended 31 July 2019 HK\$'000	Market value of pledged securities as at 31 March 2017 HK\$'000	Market value of pledged securities as at 31 March 2018 HK\$'000	Market value of pledged securities as at 31 March 2019 HK\$'000	Market value of pledged securities as at 31 July 2019 HK\$'000
Director of the Company													
Mr. Sy Man Chiu and his close members of the family	241	9	-	-	-	6,933	2,391	149	-	4,402	-	-	-
Shareholders of the Company													
Mr. Keng Lee Stephen and his close members of the family	-	1,417	1,483	-	-	3,566	1,483	1,483	-	7,036	9,310	-	-
Ms. Yeung Lai Lai and her close members of the family	40	1,027	-	851	605	10,557	10,373	43,687	1,059	3,149	-	1,351	659

The above balance are repayable on demand and bear interest at commercial rates which are similar to the rates offered to other cash and margin clients.

- (b) No credit period is granted for accounts receivables arising from placing and underwriting services. Included in the accounts receivable arising from placing and underwriting services is HK\$1,297,000, HK\$1,820,000, HK\$2,416,000 and HK\$5,424,000 as at 31 March 2017, 2018, 2019 and 31 July 2019 respectively which are past due for which the Group has not provided for impairment loss after consideration of the credit quality of the individual customers. The ageing analysis (based on the revenue recognition date) is as follows:

	As at 31 March			As at
	2017	2018	2019	31 July
	HK\$'000	HK\$'000	HK\$'000	2019
				HK\$'000
0 – 30 days	632	-	-	875
31 – 90 days	-	1,500	510	4,159
91 – 120 days	300	320	1,906	-
121 – 365 days	365	-	-	390
	<u>1,297</u>	<u>1,820</u>	<u>2,416</u>	<u>5,424</u>

The directors of the Company are of the opinion that the amounts are recoverable.

Impairment allowance of HK\$nil, HK\$365,000, HK\$nil and HK\$nil as at 31 March 2017, 2018, 2019 and 31 July 2019 respectively have been made for accounts receivable from placing and underwriting services. The directors of the Company have individually evaluated the accounts receivable for impairment after taking into account the credit quality of the individual customers.

At 31 March 2017, 2018, 2019 and 31 July 2019, there were allowances for impairment of HK\$nil, HK\$365,000, HK\$nil and HK\$nil respectively. Movements in the allowances for doubtful debts in respect of accounts receivable of placing and underwriting services were as follows:

	As at 31 March			As at 31 July 2019
	2017	2018	2019	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Opening	–	–	365	–
Impairment loss recognised	–	365	–	–
Impairment loss reversed (Note)	–	–	(365)	–
Closing	–	365	–	–

Note: For the year ended 31 March 2019, impairment loss of HK\$365,000 was reversed because the Group recovered from one customer with gross carrying amount of HK\$365,000.

- (c) The accounts receivable from investment advisory services with a carrying amount of HK\$nil, HK\$82,000, HK\$nil and HK\$nil as at 31 March 2017, 2018, 2019 and 31 July 2019 respectively are not past due and the directors of the Company are of the opinion that the amounts are recoverable. The aging analysis (based on the revenue recognition date) is as follows:

	As at 31 March			As at 31 July 2019
	2017	2018	2019	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
0 to 30 days	–	82	–	–

22. DEPOSITS AND PREPAYMENTS

The Group

	As at 31 March			As at 31 July 2019
	2017	2018	2019	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deposits	795	696	721	654
Prepayments	789	897	248	314
Deferred issue costs	–	537	744	2,073
	<u>1,584</u>	<u>2,130</u>	<u>1,713</u>	<u>3,041</u>
Analyses as:				
Current	1,119	1,642	1,713	3,041
Non-current	<u>465</u>	<u>488</u>	<u>–</u>	<u>–</u>
	<u>1,584</u>	<u>2,130</u>	<u>1,713</u>	<u>3,041</u>

The Company

	As at 31 March			As at
	2017	2018	2019	31 July
	HK\$'000	HK\$'000	HK\$'000	2019
				HK\$'000
Prepayments	754	862	221	130
Deferred issue costs	—	537	744	2,073
	<u>754</u>	<u>1,399</u>	<u>965</u>	<u>2,203</u>
Analyses as:				
Current	<u>754</u>	<u>1,399</u>	<u>965</u>	<u>2,203</u>

Details of impairment assessment at 31 March 2019 and 31 July 2019 are set out in Note 36.

23. HELD-FOR-TRADING INVESTMENTS

	As at 31 March			As at
	2017	2018	2019	31 July
	HK\$'000	HK\$'000	HK\$'000	2019
				HK\$'000
Equity securities listed in Hong Kong	<u>999</u>	<u>823</u>	<u>—</u>	<u>—</u>

24. BANK BALANCES AND CASH**Bank balances – general accounts and cash**

Bank balances carry interest ranging from 0% to 0.24% per annum as at 31 March 2017, 0% to 0.3% per annum as at 31 March 2018 and 0% to 0.7% per annum as at 31 March 2019 and 31 July 2019.

Bank balances – trust and segregated accounts

The Group receives and holds money deposited by clients and other institutions in the course of conducting its regulated activities. These clients' monies are maintained in one or more segregated bank accounts. The Group has recognised the corresponding accounts payable to respective clients and other institutions (Note 25) on the grounds that it is liable for any loss or misappropriation of client's monies. The cash held on behalf of customers is restricted and governed by the Securities and Futures (Client Money) Rules under the Hong Kong Securities and Futures Ordinance ("HKSF"). However, the Group currently does not have an enforceable right to offset those payables with the deposits placed.

Details of impairment assessment at 31 March 2019 and 31 July 2019 are set out in Note 36.

25. ACCOUNTS PAYABLE

	As at 31 March			As at
	2017	2018	2019	31 July
	HK\$'000	HK\$'000	HK\$'000	2019
				HK\$'000
HKSCC	4,643	–	–	–
Cash clients	117,455	98,495	119,629	103,526
Margin clients	<u>30,182</u>	<u>87,575</u>	<u>34,544</u>	<u>56,163</u>
	<u>152,280</u>	<u>186,070</u>	<u>154,173</u>	<u>159,689</u>

The normal settlement terms of accounts payable to cash clients and securities clearing houses are two days after trade date.

Accounts payable to HKSCC, margin clients and cash clients are repayable on demand after settlement date. No aging analysis is disclosed as in the opinion of directors of the Company, the aging analysis does not give additional value in view of the nature of this business.

The accounts payable amounting to HK\$116,342,000, HK\$145,872,000, HK\$137,608,000 and HK\$119,826,000 as at 31 March 2017, 2018, 2019 and 31 July 2019 respectively, were payable to clients in respect of the trust and segregated bank balances received and held for clients in the course of the conduct of regulated activities. However, the Group does not have a currently enforceable right to offset these payables with the deposits placed.

Included in accounts payables to cash and margin clients arising from the business of dealing in securities are amounts due to certain related parties. The details are as follows:

	As at 31 March			As at
	2017	2018	2019	31 July
	HK\$'000	HK\$'000	HK\$'000	2019
				HK\$'000
Directors of the Company				
Mr. Sy Man Chiu and his close members of the family	16	26	164	421
Shareholders of the Company				
Mr. Keng Lee Stephen and his close members of the family	1,214	64	64	174
Ms. Yeung Lai Lai and her close members of the family	<u>3,694</u>	<u>558</u>	<u>–</u>	<u>5,308</u>

The above balances are unsecured, non-interest bearing and repayable on demand.

26. OTHER PAYABLES AND ACCRUED CHARGES**The Group**

	As at 31 March			As at
	2017	2018	2019	31 July
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other payables	258	1,003	1,088	1,311
Accrued charges	<u>1,760</u>	<u>2,299</u>	<u>2,922</u>	<u>5,643</u>
	<u>2,018</u>	<u>3,302</u>	<u>4,010</u>	<u>6,954</u>

The Company

	As at 31 March			As at
	2017	2018	2019	31 July
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Accrued charges	<u>1,381</u>	<u>1,927</u>	<u>2,253</u>	<u>4,824</u>

27. BANK BORROWINGS

	As at 31 March			As at
	2017	2018	2019	31 July
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank overdrafts, secured	<u>–</u>	<u>–</u>	<u>30,000</u>	<u>30,000</u>

The bank borrowings are collateralised by the Group's margin clients' marketable securities with fair value of approximately HK\$49,000,000 and HK\$54,000,000 at 31 March 2019 and 31 July 2019 respectively pledged to the Group (with client's consent) and repayable on demand.

Bank overdrafts carry interest at 2.25% p.a. over 1-month Hong Kong Inter-bank Offered Rate.

28. AMOUNTS DUE TO RELATED COMPANIES

Smart Domain and Sinomax Securities are the related companies of the Company. These companies are ultimately owned and controlled by Mr. Keng Lee Stephen and Ms. Yeung Lai Lai. The amounts due to related companies are non-trade related, unsecured, non-interest bearing and repayable on demand.

29. LEASE LIABILITIES**The Group**

	As at 31 March			As at
	2017	2018	2019	31 July
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Minimum lease payment due:				
Within one year	1,775	1,775	1,480	888
More than one year but not exceeding two years	1,775	1,480	–	–
More than two years but not exceeding three years	<u>1,480</u>	<u>–</u>	<u>–</u>	<u>–</u>
	5,030	3,255	1,480	888
Less: future finance charge	<u>(358)</u>	<u>(155)</u>	<u>(35)</u>	<u>(14)</u>
Present value of lease liabilities	<u><u>4,672</u></u>	<u><u>3,100</u></u>	<u><u>1,445</u></u>	<u><u>874</u></u>
Present value of lease liabilities:				
Within one year	1,572	1,655	1,445	874
More than one year but not exceeding two years	1,655	1,445	–	–
More than two years but not exceeding three years	<u>1,445</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u><u>4,672</u></u>	<u><u>3,100</u></u>	<u><u>1,445</u></u>	<u><u>874</u></u>

The Group leases one property to operate its business and these liabilities were measured at the present value of the lease payments that are not yet paid.

No extension or termination options are included in the lease agreements entered by the Group.

30. SHARE CAPITAL

The share capital as at 1 April 2016 represented the share capital of the following group entity:

The Group

	Amount
	<i>HK\$</i>
Sinomax Securities of 80,000 ordinary shares at HK\$1,000 each	<u><u>80,000,000</u></u>

The share capital as at 31 March 2017 represented the combined share capital of the following group entities:

	Amount <i>HK\$</i>
Smart Domain of 1 ordinary share at US\$1 each	8
Sinomax Securities of 80,000 ordinary shares at HK\$1,000 each	<u>80,000,000</u>
	<u><u>80,000,008</u></u>

The share capital as at 31 March 2018, 2019 and 31 July 2019 represented the combined share capital of the following group entities:

	Amount <i>HK\$</i>
The Company of 100 ordinary shares at HK\$0.01 each	1
Sinomax Securities of 80,000 ordinary shares at HK\$1,000 each	<u>80,000,000</u>
	<u><u>80,000,001</u></u>
	<i>HK\$'000</i>
Shown in the combined statements of financial position As at 31 March 2017, 2018, 2019 and 31 July 2019	<u><u>80,000</u></u>

The Company

	Number of shares	Amount <i>HK\$</i>
Authorised:		
At 7 June 2016 (date of incorporation), 31 March 2017, 2018, 2019 and 31 July 2019	<u><u>38,000,000</u></u>	<u><u>380,000</u></u>
Issued:		
Issued on date of incorporation, 31 March 2017, 2018, 2019 and 31 July 2019	<u><u>100</u></u>	<u><u>1</u></u>

31. RESERVE OF THE COMPANY

	Accumulated losses HK\$'000
At 7 July 2016 (incorporation date)	–
Loss and total comprehensive expense for the period	<u>(8,920)</u>
At 31 March 2017	(8,920)
Loss and total comprehensive expense for the year	<u>(1,898)</u>
At 31 March 2018	(10,818)
Loss and total comprehensive expense for the year	<u>(3,229)</u>
At 31 March 2019	(14,047)
Loss and total comprehensive expense for the period	<u>(5,095)</u>
At 31 July 2019	<u><u>(19,142)</u></u>

32. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in the Historical Financial Information, the Group entered in the following transactions with related parties:

	Year ended 31 March		Four months ended 31 July		
	2017	2018	2019	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)	
Commission income received from the following directors, shareholders and related party of the Company					
– Mr. Sy Man Chiu and his close members of the family	41	54	25	11	1
– Mr. Keng Lee Stephen and his close members of the family	70	53	10	–	–
– Ms. Yeung Lai Lai and her close members of the family	110	131	65	46	22
– Mr. Li Qing Feng and his close members of the family (<i>Note a</i>)	5	–	–	–	–
– NEO Tycoon Limited (<i>Note b</i>)	<u>157</u>	<u>69</u>	<u>156</u>	<u>100</u>	<u>41</u>
	<u><u>383</u></u>	<u><u>307</u></u>	<u><u>256</u></u>	<u><u>157</u></u>	<u><u>64</u></u>
Commission expenses paid to the following director of the Company					
– Mr. Sy Man Chiu	<u>98</u>	<u>44</u>	<u>19</u>	<u>2</u>	<u>12</u>

	Year ended 31 March			Four months ended 31 July	
	2017	2018	2019	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Interest income received from the following directors, shareholders and related party of the Company					
– Mr. Sy Man Chiu and his close members of the family	23	19	–	–	–
– Mr. Keng Lee Stephen and his close members of the family	63	–	–	–	–
– Ms. Yeung Lai Lai and her close members of the family	106	43	76	34	27
– NEO Tycoon Limited	–	–	143	123	–
	<u>192</u>	<u>62</u>	<u>219</u>	<u>157</u>	<u>27</u>
Handling fee income from the following directors, shareholders and related party of the Company					
– Mr. Sy Man Chiu and his close members of the family	2	3	2	1	1
– Mr. Keng Lee Stephen and his close members of the family	4	8	3	2	1
– Ms. Yeung Lai Lai and her close members of the family	20	13	5	2	6
– NEO Tycoon Limited	9	22	7	3	4
	<u>35</u>	<u>46</u>	<u>17</u>	<u>8</u>	<u>12</u>
Investment advisory services fee income received from the following related party of the Company					
– Sino Pacific Capital (Note c)	–	450	50	50	–
Salaries paid to the following shareholder of the Company					
– Ms Yeung Lai Lai and her close members of the family	249	358	433	122	252

Compensation of key management personnel represents directors' remuneration as disclosed in Note 15.

Note a: Mr. Li Qing Feng is a director of Sinomax Securities and he is also a close family member of Mr. Keng Lee Stephen, the shareholder of the Company.

Note b: The shareholder of NEO Tycoon Limited is a close family member of Ms. Yeung Lai Lai, the shareholder of the Company.

Note c: Two shareholders of Sino Pacific Capital are close family members of Ms. Yeung Lai Lai and Mr. Keng Lee Stephen respectively, the shareholders of the Company.

33. RETIREMENT BENEFIT SCHEME

The Group operates a pension scheme under the rules and regulations of the Mandatory Provident Fund Schemes Ordinance (the “MPF Scheme”) for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes a fixed percentage of the relevant payroll costs to the scheme.

The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions. The total cost of HK\$163,000, HK\$187,000, HK\$194,000, HK\$65,000 (unaudited) and HK\$69,000 for each of the years ended 31 March 2017, 2018, 2019 and four months ended 31 July 2018 and 2019 respectively charged to the combined statements of profit or loss and other comprehensive income represents contributions paid or payable by the Group for the year/period.

34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details change in the Group’s liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flow were, or future cash flow will be, classified in the Group’s combined statement of cash flows as cash flows from financing activities.

	Lease liabilities HK\$'000	Bank borrowing HK\$'000	Accrued share issue costs HK\$'000	Interest payable HK\$'000	Amounts due to shareholders HK\$'000	Total HK\$'000
At 1 April 2016	1,377	–	–	–	15,000	16,377
Financing cash flows:						
– Repayments	–	–	–	–	(15,000)	(15,000)
– Payment for lease	(1,564)	–	–	–	–	(1,564)
Interest expense	79	–	–	–	–	79
Recognition of lease liabilities	4,780	–	–	–	–	4,780
At 31 March 2017	4,672	–	–	–	–	4,672
Financing cash flows:						
– Interest paid	–	–	–	(1)	–	(1)
– Payment for lease	(1,775)	–	–	–	–	(1,775)
Interest expense	203	–	–	1	–	204
Issue cost accrued	–	–	350	–	–	350
At 31 March 2018	3,100	–	350	–	–	3,450
Financing cash flows:						
– Borrowing raised for margin financing	–	30,000	–	–	–	30,000
– Issue cost paid	–	–	(50)	–	–	(50)
– Interest paid	–	–	–	(252)	–	(252)
– Payment for lease	(1,775)	–	–	–	–	(1,775)
Interest expense	120	–	–	252	–	372
Issue cost accrued	–	–	206	–	–	206
At 31 March 2019	1,445	30,000	506	–	–	31,951

	Lease liabilities HK\$'000	Bank borrowing HK\$'000	Accrued share issue costs HK\$'000	Interest payable HK\$'000	Amounts due to shareholders HK\$'000	Total HK\$'000
Financing cash flows:						
– Issue cost paid	–	–	(655)	–	–	(655)
– Interest paid	–	–	–	(436)	–	(436)
– Payment for lease	(592)	–	–	–	–	(592)
Interest expense	21	–	–	436	–	457
Issue cost accrued	–	–	1,329	–	–	1,329
At 31 July 2019	<u>874</u>	<u>30,000</u>	<u>1,180</u>	<u>–</u>	<u>–</u>	<u>32,054</u>
Unaudited						
At 31 March 2018	3,100	–	350	–	–	3,450
Financing cash flows:						
– Borrowing raised for margin financing	–	5,336	–	–	–	5,336
– Issue cost paid	–	–	(50)	–	–	(50)
– Interest paid	–	–	–	(3)	–	(3)
– Payment for lease	(592)	–	–	–	–	(592)
Interest expenses	<u>50</u>	<u>–</u>	<u>–</u>	<u>3</u>	<u>–</u>	<u>53</u>
At 31 July 2018 (unaudited)	<u>2,558</u>	<u>5,336</u>	<u>300</u>	<u>–</u>	<u>–</u>	<u>8,194</u>

35. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged through the Track Record Period.

The capital structure of the Group consists debt, which includes the bank borrowings disclosed in Note 27, and equity attributable to owners of the Group, comprising issued share capital, other reserve and retained earnings disclosed in the Historical Financial Information.

The directors of the Company review the capital structure annually. As part of this review, the directors of the Company assess the annual budget prepared by management of the Group. Based on the proposed annual budget, the directors of the Company consider the cost of capital and the risks associated with each class of capital. The directors of the Company also balance the overall capital structure of the Group through new share issues and the issue of new debt. The Group's overall strategy remains unchanged throughout the Track Record Periods.

A group entity, Sinomax Securities, is licensed to carry out regulated activities in Hong Kong and is regulated by the Hong Kong Securities and Futures Commission (the "SFC"). It is required to comply with the minimum capital requirements according to the Hong Kong Securities and Futures (Financial Resources) Rules ("SF(FR)R"). Management monitors, on a daily basis, the group entity liquid capital to ensure it meets the minimum liquid capital requirement in accordance with the SF(FR)R. The group entity has been in compliance with the capital requirement imposed by the SF(FR)R throughout the Track Record Period.

36. FINANCIAL INSTRUMENTS

Categories of financial instruments

The Group

	As at 31 March			As at
	2017	2018	2019	31 July
	HK\$'000	HK\$'000	HK\$'000	2019
				HK\$'000
Financial assets				
At fair value through profit or loss				
– Held-for-trading investments	999	823	–	–
Amortised cost	–	–	373,243	394,959
Loans and receivables (including cash and cash equivalents)	<u>267,687</u>	<u>336,578</u>	<u>–</u>	<u>–</u>
Financial liabilities				
Amortised cost	<u>152,538</u>	<u>187,073</u>	<u>185,261</u>	<u>191,000</u>

The Company

	As at 31 March			As at
	2017	2018	2019	31 July
	HK\$'000	HK\$'000	HK\$'000	2019
				HK\$'000
Financial liabilities				
Amortised cost	<u>8,294</u>	<u>10,291</u>	<u>12,760</u>	<u>16,522</u>

Financial risk management objectives and policies

The Group's major financial instruments include held-for-trading investments, accounts receivable, deposits, bank balances and cash, accounts payable, other payables and bank borrowings.

Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include credit risk, market risk (currency risk, interest rate risk and other price risk) and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Market risk can be described as the risk of change in fair value of a financial instrument due to changes in interest rates, equity prices or foreign currency exchange rates.

(i) Interest rate risk

The Group is exposed to fixed rate risk for lease liabilities. The Group is also exposed to cash flow interest rate risk in relation to accounts receivable from cash and margin clients, bank borrowings and bank balances and cash. The Group currently does not have an interest rate hedging policy. The directors monitor the Group's exposures on an ongoing basis and will consider hedging the interest rate should the need arises.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Prime Rate arising from the Group's variable interest rate instruments.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for accounts receivable from cash and margin clients, bank borrowings and bank balances at the end of the reporting period. The sensitivity analysis is prepared assuming the variable-rate financial instruments outstanding at the end of the reporting period were outstanding for the whole year/period.

As at 31 March 2017, 2018, 2019 and 31 July 2019, if the interest rate had been 10 basis points higher/lower and all other variables were held constant, the Group's profit after taxation would increase by HK\$188,000, HK\$214,000, HK\$169,000 and HK\$52,000 or decrease by HK\$90,000, HK\$91,000, HK\$137,000 and HK\$46,000 respectively. Assets with interest below 10 basis points are excluded from 10 basis points downward movement.

A 10 basis points increase or decrease is used when reporting interest rate internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

(ii) Other price risk

The Group is exposed to equity price risk through their held-for-trading investments. The Group's equity price risk is concentrated on equity instruments quoted on the Stock Exchange. The management manages the exposure by closely monitoring the portfolio of investments and imposing credit limits on individual trades.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risks at the reporting date. For sensitivity analysis purpose, the sensitivity rate at 20% is applied as a result of the volatile financial market.

If the price of the respective held-for-trading investments had been 20% higher/lower, and held other variables constant, the profit after taxation of the Group for the years ended 31 March 2017, 2018, 2019 and the four months ended 31 July 2019 would increase/decrease by HK\$167,000, HK\$137,000, HK\$nil and HK\$nil respectively, as a result of the changes in fair value of held-for-trading investments.

In management's opinion, the sensitivity analysis was unrepresentative of the inherent equity price risk as the year/period end exposure does not reflect the exposure during the year/period.

(iii) Currency risk

The currency risk exposure is not significant as most of the transactions and financial assets and liabilities of the Group are denominated in Hong Kong dollars, the functional currency of the entities comprising the Group. Accordingly, no sensitivity analysis has been presented on the currency risk.

Credit risk and impairment assessment

As at 31 March 2017, 2018, 2019 and 31 July 2019, the Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position.

In order to minimise the credit risk on accounts receivable, the management of the Group compile the credit and risk management policies, to approve credit limits and to determine any debt recovery action on those delinquent receivables. In addition, the management of the Group review the recoverable amount of accounts receivable and the receivables from margin clients are secured by client's pledged securities which are equity and debt securities listed in Hong Kong and overseas.

Margin calls are made when the trades of margin clients exceed their credit limits or a shortfall existed after taking into the account the securities collateral. Any such excess is required to be made good within the next trading day. Failure to meet margin calls may result in the liquidation of the client's position. The Group seeks to maintain strict control over its outstanding receivables. In this regard, the management of the Group consider that the Group's credit risk is significantly reduced.

The credit risk on bank balances is limited because the counterparties are with high credit-ratings assigned by international credit-rating agencies.

The credit risk for accounts receivable from clearing house and brokers is considered as not high taking into account the good market reputations and high credit ratings of the counterparties.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Accounts receivable arising from placing and underwriting and investment advisory services	Accounts receivable arising from the business of dealing in securities	Other financial assets
Normal	The counterparty has a low risk of default and does not have any past-due amounts or have past-due amounts less than 30 days (accounts receivable arising from the business of dealing in securities: have past-due amounts less than 10 days)	Lifetime ECL – not credit-impaired	12-month ECL	12-month ECL
Special mention	There have been significant increases in credit risk since initial recognition through information developed internally or external resources or payments have been overdue for more than 30 days (accounts receivable arising from the business of dealing in securities: have past-due amounts for over 10 days)	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Sub-standard	There is evidence indicating the asset is credit-impaired or payment has been overdue for more than 90 days (accounts receivable arising from the business of dealing in securities: have past-due amounts for over 30 days)	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Loss	There is evidence indicating that the debtor is in significant financial difficulty and the Group has little realistic prospect of recovery	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired

The identification of internal credit rating for all financial assets regularly reviewed by management of the Group to ensure relevant information about specific financial assets is updated.

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

At 31 March 2019	Notes	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount HK\$'000
Bank balances and cash (Note 24)	1	A2 or higher	Normal	12-month ECL	167,835
Deposits (Note 22)	2	N/A	Normal	12-month ECL	721
Accounts receivable arising from placing and underwriting and investment advisory services (Note 21)	3	N/A	Special mention	Lifetime ECL (not credit impaired)	510
			Sub-standard	Credit impaired	1,906
					2,416
Accounts receivable arising from the business of dealing in securities (Note 21)	4	N/A	Normal	12-month ECL	202,163
			Sub-standard	Credit impaired	108
					202,271
At 31 July 2019	Notes	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount HK\$'000
Bank balances and cash (Note 24)	1	A2 or higher	Normal	12-month ECL	157,802
Deposits (Note 22)	2	N/A	Normal	12-month ECL	654
Accounts receivable arising from placing and underwriting and investment advisory services (Note 21)	3	N/A	Normal	Lifetime ECL (not credit impaired)	875
			Special mention	Lifetime ECL (not credit impaired)	4,159
			Sub-standard	Credit impaired	390
					5,424
Accounts receivable arising from the business of dealing in securities (Note 21)	4	N/A	Normal	12-month ECL	230,968
			Sub-standard	Credit impaired	111
					231,079

Notes:

1. These institutional banks have a low risk of default and there is no significant increase in credit risk since initial recognition. Accordingly, they are subject to 12-month ECL. The ECL is assessed by reference to the PD and LGD for the relevant credit rating grades published by international credit rating agencies, and adjusted for forward-looking factors that are available without undue cost or effort.
2. The ECL is assessed by reference to the PD and LGD of credit ratings published by international credit rating agencies over the expected life and is adjusted for forward-looking estimates.
3. For accounts receivable arising from placing and underwriting and investment advisory services, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the lifetime ECL on these items individually based on the Group's historical default rates or by reference to the PD and LGD of credit ratings published by international credit rating agencies over the expected life and is adjusted for forward-looking estimates.
4. In respect of accounts receivable arising from the business of dealing in securities, the Group considers that there is significant increase in credit risk since initial recognition and default indicator when the balance is more than 10 days past due. The PD and LGD over the expected life of the accounts receivable are estimated on an individual basis based on the Group's historical default and loss data and adjusted for forward-looking factors that are available without undue cost or effort. The management performs individual assessment for reviewing the value of collateral received from clients in determining the LGD. LGD of 0% is used when the realisable value of securities or collateral from clients is larger than the accounts receivable arising from the business of dealing in securities.

For credit-impaired accounts receivable arising from the business of dealing in securities, the management performs individual assessment for each client by considering various factors, including the realisable value of securities or collateral from clients which are held by the Group and subsequent settlement.

The ECL impairment allowance determined for all the financial assets carried at amortised cost mentioned above is insignificant as the expected credit loss rates are approximately close to zero. Accordingly, no allowance for credit loss was recognised for the year ended 31 March 2019, four months ended 31 July 2019, as at 31 March 2019 and 31 July 2019.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following tables details the Group's and the Company's remaining contractual maturity for its financial liabilities and lease liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities and lease liabilities based on the earliest date on which the Group and the Company can be required to pay.

The table includes both interest and principal cash flows.

Liquidity tables

The Group

	Weighted average effective interest rate %	Repayable on demand HK\$'000	Less than 1 month HK\$'000	Between 1 month to 3 months HK\$'000	Between 3 months to 1 year HK\$'000	Over 1 to 5 years HK\$'000	Total contracted undiscounted cash flows HK\$'000	Carrying amount at reporting date HK\$'000
At 31 March 2017								
Accounts payables	N/A	152,280	–	–	–	–	152,280	152,280
Other payables	N/A	258	–	–	–	–	258	258
Lease liabilities	5.125	–	147	296	1,332	3,255	5,030	4,672
		<u>152,538</u>	<u>147</u>	<u>296</u>	<u>1,332</u>	<u>3,255</u>	<u>157,568</u>	<u>157,210</u>
At 31 March 2018								
Accounts payables	N/A	186,070	–	–	–	–	186,070	186,070
Other payables	N/A	1,003	–	–	–	–	1,003	1,003
Lease liabilities	5.125	–	147	296	1,332	1,480	3,255	3,100
		<u>187,073</u>	<u>147</u>	<u>296</u>	<u>1,332</u>	<u>1,480</u>	<u>190,328</u>	<u>190,173</u>
At 31 March 2019								
Accounts payables	N/A	154,173	–	–	–	–	154,173	154,173
Other payables	N/A	1,088	–	–	–	–	1,088	1,088
Bank borrowings	3.379	30,000	–	–	–	–	30,000	30,000
Lease liabilities	5.125	–	147	296	1,037	–	1,480	1,445
		<u>185,261</u>	<u>147</u>	<u>296</u>	<u>1,037</u>	<u>–</u>	<u>186,741</u>	<u>186,706</u>
At 31 July 2019								
Accounts payables	N/A	159,689	–	–	–	–	159,689	159,689
Other payables	N/A	1,311	–	–	–	–	1,311	1,311
Bank borrowings	3.379	30,000	–	–	–	–	30,000	30,000
Lease liabilities	5.125	–	147	296	445	–	888	874
		<u>191,000</u>	<u>147</u>	<u>296</u>	<u>445</u>	<u>–</u>	<u>191,888</u>	<u>191,874</u>

As at 31 March 2017, 2018, 2019 and 31 July 2019, the Group has available unutilised bank facilities of HK\$15,000,000, HK\$15,000,000, HK\$20,000,000 and HK\$20,000,000 respectively.

The Company

All financial liabilities of the Company are within maturities less than 1 month or are repayable on demand as at 31 March 2017, 2018, 2019 and 31 July 2019.

Fair value measurement of financial instruments

This note provides information about how the Group determines fair value of various financial assets and financial liabilities.

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Equity securities are measured at fair value at the end of each reporting period. The following table gives information about how the fair value of these financial assets are determined.

Financial assets	Fair value as at 31 March			As at 31	Fair value hierarchy	Valuation technique and key input
	2017	2018	2019	July 2019		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Equity securities listed in Hong Kong	999	823	–	–	Level 1	Quoted prices in an active market

There were no transfers between Levels 1, 2 and 3 throughout the Track Record Period.

Fair value of Group's financial assets and liabilities that are measured at amortised costs

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised costs in the Historical Financial Information approximate their fair values. The fair value of financial assets and financial liabilities are determined in accordance with discounted cash flow analysis.

Financial assets and financial liabilities offsetting

The disclosures set out in the tables below include financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments that are either:

- offset in the combined statements of financial position; or
- no offset in the combined statements of financial position as the offsetting criteria are not met.

Under the agreement of continuous net settlement made between Group and HKSCC, the Group has a legally enforceable right to set off the money obligations receivable and payable with HKSCC on the same settlement date and the Group intends to settle on a net basis.

In addition, the Group has a legally enforceable right to set off the accounts receivable and payable with its cash clients in the Group's brokerage business ("brokerage clients") that are due to be settled on the same date with reference to the settlement method set by HKSCC and the Group intends to settle these balances on a net basis.

Except for balances which are due to be settled on the same date which are being offset, amounts due from/to HKSCC and brokerage clients that are not to be settled on the same date, financial collateral including cash and securities received by the Group and deposit placed with HKSCC do not meet the criteria for offsetting in the combined statements of financial position since the right of set-off of the recognised amounts is only enforceable following an event of default.

As at 31 March 2017

	Gross amounts of recognised financial assets after impairment <i>HK\$'000</i>	Gross amounts of recognised financial liabilities set off in the combined statement of financial position <i>HK\$'000</i>	Net amounts of financial assets presented in the combined statement of financial position <i>HK\$'000</i> (Note ii)	Related amounts not offset in the combined statement of financial position		Net amount <i>HK\$'000</i>
				Financial instruments <i>HK\$'000</i>	Collateral received <i>HK\$'000</i> (Note i)	
Amounts receivable arising from the business of dealing in securities						
HKSCC	54,187	(32,609)	21,578	(4,643)	–	16,935
Cash clients	40,472	(15,108)	25,364	(18,491)	(6,873)	–
Margin clients	86,218	(4,186)	82,032	(12,711)	(69,320)	1
	<u>180,877</u>	<u>(51,903)</u>	<u>128,974</u>	<u>(35,845)</u>	<u>(76,193)</u>	<u>16,936</u>

	Gross amounts of recognised financial liabilities after impairment <i>HK\$'000</i>	Gross amounts of recognised financial assets set off in the combined statement of financial position <i>HK\$'000</i>	Net amounts of financial liabilities presented in the combined statement of financial position <i>HK\$'000</i>	Related amounts not offset in the combined statement of financial position		Net amount <i>HK\$'000</i>
				Financial instruments <i>HK\$'000</i>	Collateral pledged <i>HK\$'000</i>	
Amounts payable arising from the business of dealing in securities						
HKSCC	37,252	(32,609)	4,643	(4,643)	–	–
Cash clients	132,563	(15,108)	117,455	(18,491)	–	98,964
Margin clients	34,368	(4,186)	30,182	(12,711)	–	17,471
	<u>204,183</u>	<u>(51,903)</u>	<u>152,280</u>	<u>(35,845)</u>	<u>–</u>	<u>116,435</u>

As at 31 March 2018

	Gross amounts of recognised financial assets after impairment <i>HK\$'000</i>	Gross amounts of recognised financial liabilities set off in the combined statement of financial position <i>HK\$'000</i>	Net amounts of financial assets presented in the combined statement of financial position <i>HK\$'000</i>	Related amounts not offset in the combined statement of financial position		Net amount <i>HK\$'000</i>
				Financial instruments <i>HK\$'000</i>	Collateral received <i>HK\$'000</i>	
Amounts receivable arising from the business of dealing in securities						
HKSCC	53,850	(36,542)	17,308	–	–	17,308
Cash clients	29,124	(5,780)	23,344	(21,421)	(1,923)	–
Margin clients	93,832	(7,603)	86,229	(17,436)	(68,766)	27
	<u>176,806</u>	<u>(49,925)</u>	<u>126,881</u>	<u>(38,857)</u>	<u>(70,689)</u>	<u>17,335</u>

	Gross amounts of recognised financial assets set off in the combined statement of financial position HK\$'000	Gross amounts of recognised financial liabilities set off in the combined statement of financial position HK\$'000	Net amounts of financial liabilities presented in the combined statement of financial position HK\$'000	Related amounts not offset in the combined statement of financial position		Net amount HK\$'000
	Gross amounts of recognised financial liabilities HK\$'000			Financial instruments HK\$'000	Collateral pledged HK\$'000	
Amounts payable arising from the business of dealing in securities						
HKSCC	36,542	(36,542)	–	–	–	–
Cash clients	104,275	(5,780)	98,495	(21,421)	–	77,074
Margin clients	95,178	(7,603)	87,575	(17,436)	–	70,139
	<u>235,995</u>	<u>(49,925)</u>	<u>186,070</u>	<u>(38,857)</u>	<u>–</u>	<u>147,213</u>

As at 31 March 2019

	Gross amounts of recognised financial assets after impairment HK\$'000	Gross amounts of recognised financial liabilities set off in the combined statement of financial position HK\$'000	Net amounts of financial assets presented in the combined statement of financial position HK\$'000	Related amounts not offset in the combined statement of financial position		Net amount HK\$'000
				Financial instruments HK\$'000	Collateral received HK\$'000	
Amounts receivable arising from the business of dealing in securities						
HKSCC	60,033	(52,975)	7,058	–	–	7,058
Cash clients	13,346	(3,870)	9,476	(7,818)	(1,658)	–
Margin clients	225,326	(40,412)	184,914	(6,601)	(178,313)	–
	<u>298,705</u>	<u>(97,257)</u>	<u>201,448</u>	<u>(14,419)</u>	<u>(179,971)</u>	<u>7,058</u>

	Gross amounts of recognised financial assets set off in the combined statement of financial position HK\$'000	Gross amounts of recognised financial liabilities set off in the combined statement of financial position HK\$'000	Net amounts of financial liabilities presented in the combined statement of financial position HK\$'000	Related amounts not offset in the combined statement of financial position		Net amount HK\$'000
				Financial instruments HK\$'000	Collateral pledged HK\$'000	
Amounts payable arising from the business of dealing in securities						
HKSCC	52,975	(52,975)	–	–	–	–
Cash clients	123,499	(3,870)	119,629	(7,818)	–	111,811
Margin clients	74,956	(40,412)	34,544	(6,601)	–	27,943
	<u>251,430</u>	<u>(97,257)</u>	<u>154,173</u>	<u>(14,419)</u>	<u>–</u>	<u>139,754</u>

As at 31 July 2019

	Gross amounts of recognised financial assets after impairment HK\$'000	Gross amounts of recognised financial liabilities set off in the combined statement of financial position HK\$'000	Net amounts of financial assets presented in the combined statement of financial position HK\$'000	Related amounts not offset in the combined statement of financial position		Net amount HK\$'000
				Financial instruments HK\$'000	Collateral received HK\$'000	
Amounts receivable arising from						
the business of dealing in securities						
HKSCC	81,481	(46,235)	35,246	–	–	35,246
Cash clients	6,236	(2,480)	3,756	(1,220)	(2,536)	–
Margin clients	232,190	(40,113)	192,077	(32,028)	(160,049)	–
	<u>319,907</u>	<u>(88,828)</u>	<u>231,079</u>	<u>(33,248)</u>	<u>(162,585)</u>	<u>35,246</u>
	Gross amounts of recognised financial liabilities HK\$'000	Gross amounts of recognised financial assets set off in the combined statement of financial position HK\$'000	Net amounts of financial liabilities presented in the combined statement of financial position HK\$'000	Related amounts not offset in the combined statement of financial position		Net amount HK\$'000
				Financial instruments HK\$'000	Collateral pledged HK\$'000	
Amounts payable arising from						
the business of dealing in securities						
HKSCC	46,235	(46,235)	–	–	–	–
Cash clients	106,006	(2,480)	103,526	(1,220)	–	102,306
Margin clients	96,276	(40,113)	56,163	(32,028)	–	24,135
	<u>248,517</u>	<u>(88,828)</u>	<u>159,689</u>	<u>(33,248)</u>	<u>–</u>	<u>126,441</u>

Notes:

- (i) The cash and financial collateral received/pledged represent their fair values as at 31 March 2017, 2018, 2019 and 31 July 2019.
- (ii) The amounts receivable arising from the business of dealing in securities under the net amounts of assets presented in the combined statement of financial position can be reconciled to the line item “Accounts receivable” by adding the accounts receivable arising from placing and underwriting services, accounts receivable arising from business of dealing in securities – brokers and accounts receivable arising from investment advisory services that are not subject to the master netting agreements and are not included in the above table.

37. INTERESTS IN SUBSIDIARIES

At the date of this report, the Company has direct and indirect equity interests in the following subsidiaries:

Name of subsidiaries	Place of incorporation	Date of incorporation	Issued and fully paid-up share capital	Equity attributable to the Group				Principal activities	At date of this report
				At 31 March			At 31		
				2017	2018	2019	July 2019		
Sinomax Securities (Note a)	Hong Kong	6 July 2001	HK\$80,000,000	0%	0%	0%	0%	100%	Securities dealing and brokerage services, placing and underwriting services, securities margin financing services and investment advisory services
Smart Domain* (Note b)	British Virgin Islands	1 February 2017	US\$100	100%	100%	100%	100%	100%	Investment holding

* *Directly held by the Company*

The Company and its subsidiary have adopted 31 March as their financial year end date.

Notes:

- (a) The statutory financial statements of Sinomax Securities for the years ended 31 March 2017, 2018 and 2019 were prepared in accordance with HKFRSs issued by the HKICPA and were audited by us.
- (b) No audited financial statements have been prepared since its date of incorporation as it was incorporated in the jurisdiction where there is no statutory audit requirements.

38. SUBSEQUENT EVENTS

On 22 January 2020, the Reorganisation as detailed in the section headed “History, Reorganisation and group structure” in this document was duly completed.

39. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to the end of the Track Record Period.

The information set out in this Appendix does not form part of the Accountants' Report on the financial information of the Group for the three years ended 31 March 2019 and the four months ended 31 July 2019 issued by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, our Company's Reporting Accountants, as set out in Appendix I to this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with "Financial information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO OWNERS OF THE COMPANY

The following unaudited pro forma statement of adjusted combined net tangible assets of the Group attributable to owners of the Company prepared in accordance with paragraph 4.29(1) of the Listing Rules is set out below to illustrate the effect of the Share Offer on the unaudited combined net tangible assets of the Group attributable to owners of the Company as at 31 July 2019.

The unaudited pro forma statement of adjusted combined net tangible assets of the Group attributable to owners of the Company has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group attributable to owners of the Company as at 31 July 2019 or any future dates.

The following unaudited pro forma statement of adjusted combined net tangible assets of the Group attributable to owners of the Company is based on the audited combined net tangible assets of the Group attributable to owners of the Company as at 31 July 2019 as derived from the Accountants' Report set out in Appendix I to this prospectus, and adjusted as follows:

	Audited combined net tangible assets of the Group attributable to owners of the Company as at 31 July 2019 HK\$'000 Note 1	Estimated net proceeds from the Share Offer HK\$'000 Note 2	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as at 31 July 2019 HK\$'000	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per share as at 31 July 2019 HK\$ Note 3
Based on the Offer Price HK\$0.6 Per Share	196,800	121,511	318,311	0.32
Based on the Offer Price HK\$0.5 Per Share	196,800	97,763	294,563	0.29

Notes:

1. The audited combined net tangible assets of the Group attributable to owners of the Company as at 31 July 2019 is based on the combined net assets of the Group of HK\$199,535,000 less the intangible assets of the Group of HK\$2,735,000 as at 31 July 2019, as extracted from the Accountants' Report as set out in Appendix I to this prospectus.
2. The estimated net proceeds from the Share Offer are based on 250,000,000 Placing Shares to be issued at an Offer Price of HK\$0.5 to 0.6 per Offer Share, after deduction of the estimated underwriting fees and related expenses expected to be incurred by the Group subsequent to 31 July 2019 and does not take into account of any Shares which may be allotted and issued pursuant to the exercise of Over-allotment Option and any Shares which may be allotted and issued or repurchase shares referred to the paragraph headed "General mandate to issue Shares" or "General mandate to repurchase Shares" under the section headed "Share capital" in this prospectus, as the case may be.
3. The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as at 31 July 2019 per share is calculated based on 1,000,000,000 shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue assumed to be on 31 July 2019. It does not take into account of any Shares which may be allotted and issued pursuant to the exercise of Over-allotment Option and any shares which may be allotted and issued or repurchase shares referred to in the paragraph headed "General mandate to issue Shares" or "General mandate to repurchase Shares" under the section headed "Share capital" in this prospectus, as the case may be.
4. No adjustment has been made to the unadjusted pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as of 31 July 2019 to reflect any trading result or other transaction of the Group entered into subsequent to 31 July 2019.

The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.



INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Fu Shek Financial Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Fu Shek Financial Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted combined net tangible assets as at 31 July 2019 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 31 January 2020 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong by way of Share Offer (the "Proposed Listing") on the Group's financial position as at 31 July 2019 as if the Proposed Listing had taken place at 31 July 2019. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's historical financial information for each of the three years ended 31 March 2019 and the four months ended 31 July 2019, on which an accountants' report set out in Appendix I to the Prospectus has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 July 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma 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:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 31 January 2020

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 company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 7 June, 2016 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “**Companies Law**”). The Company’s constitutional documents consist of its memorandum of association (the “**Memorandum**”) and its articles of association (the “**Articles**”).

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 22 January 2020 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) Classes of shares

The share capital of the Company consists of ordinary shares.

(ii) Variation of rights of existing shares or classes of shares

Subject to the 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 the shares or any class of shares may (unless otherwise provided for by the terms of issue 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. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an

adjourned meeting) shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Law in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed 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 transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require 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 registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

(v) Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to 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 requirements imposed from time to time by Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

The board may accept the surrender for no consideration of any fully paid share.

(vii) Calls on shares and forfeiture of shares

The board may from time to time make such calls 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). A call may be made payable either in one lump sum or by installments. 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 twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof 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 monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non payment at or before the time appointed, 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, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) Directors

(i) Appointment, retirement and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office 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 will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period 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 members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

(aa) he resigns by notice in writing delivered to the Company;

- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

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 delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time 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 must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine), or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

Neither the Company nor the board is 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 with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, 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 Companies Law to be exercised or done by the Company in general meeting.

(iv) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, 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.

(v) Remuneration

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be 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 may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making 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 ex Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

The board may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of the Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than the Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

(vi) Compensation or payments for loss of office

Pursuant to the Articles, payments to any 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 entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of 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 therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or 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, profits or other benefits received by him as a director, officer or member of, or from his interest in, 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 thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, 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 or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for 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 himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. 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 an additional or casting vote.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members*(i) Special and ordinary resolutions*

A special resolution of the Company must be passed by a majority of not less than three fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean 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 corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) Voting rights and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting 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 fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that 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.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons 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 pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear Business Days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear Business Days. The notice is 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 and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
 - (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
 - (cc) the election of directors in place of those retiring;
 - (dd) the appointment of auditors and other officers; and
 - (ee) the fixing of the remuneration of the directors and of the auditors.
- (v) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class.

(vi) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is 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 is 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 as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office 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 accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof 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 of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditor at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) 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 shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders 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.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their 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 moneys 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.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of 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 or bonuses unclaimed for six years after having been declared may be forfeited by the board and 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.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be 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, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of 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 divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the 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 a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the 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 arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (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; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the 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.

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.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), 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, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that 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. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. 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. 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 purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

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 to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having 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 into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder 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 or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

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.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof 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 of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 28 June 2016.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

The notice of registered office is a matter of public record. A list of the names of the current directors and alternate directors (if applicable) is made available by the Registrar of Companies for inspection by any person on payment of a fee. The register of members is open to inspection by creditors and members.

Members of the Company have no general right under the Companies Law 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.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. The register of members shall contain such particulars as required by Section 40 of the Companies Law. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of 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 members, 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 of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of 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 thirty (30) days of any change in such directors or officers.

(p) Register of Beneficial Ownership

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The register of beneficial ownership is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the Company is listed on the Stock Exchange, it is not required to maintain a register of beneficial ownership.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its

debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must 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.

As soon as the affairs of the 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 how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder 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 shareholders.

(t) 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, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

(u) Economic Substance Requirements

Pursuant to the International Tax Cooperation (Economic Substance) Law, 2018 of the Cayman Islands ("ES Law") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Law. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Law.

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V to this prospectus. 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.

A. FURTHER INFORMATION ABOUT OUR GROUP**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 7 June 2016. Our Company's registered office is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Our Company has established a principal place of business in Hong Kong at Room 2705-6, 27/F, Tower One, Lippo Centre, 89 Queensway, Hong Kong and has been registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 8 July 2016. In connection with such registration, Mr. Sy has been appointed as the authorised representative of our Company for the acceptance of service of processes and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, its operation is subject to the laws of the Cayman Islands and to its constitution comprising the Memorandum and the Articles. A summary of certain provisions of our Company's constitution and relevant aspects of the Cayman Islands company law is set out in Appendix III to this prospectus.

2. Changes in the share capital of our Company

The authorised share capital of our Company as at the date of its incorporation was HK\$380,000 divided into 38,000,000 Shares with a par value of HK\$0.01 each. On the same date, (i) one nil paid Share was allotted and issued to the initial subscriber, which was subsequently transferred to Man Chase on the same date as nil paid share; and (ii) 99 nil paid Shares were allotted and issued by our Company to Man Chase. The following alterations in the share capital of our Company have taken place since the date of its incorporation:

- (a) on 22 January 2020, Mr. Keng and Ms. Yeung entered into an agreement for the sale and purchase of shares in Sinomax Securities with our Company pursuant to which Mr. Keng and Ms. Yeung transferred the entire issued shares of Sinomax Securities to Smart Domain (as our Company's nominee) for the consideration of HK\$228,797,000, which was satisfied by (i) our Company, at the direction of Mr. Keng and Ms. Yeung, allotting and issuing 9,900 new Shares, credited as fully paid, to Man Chase (as a nominee of Mr. Keng and Ms. Yeung); and (ii) the crediting of 100 nil-paid Shares, which were registered in the name of Man Chase, as fully paid;
- (b) pursuant to the written resolutions of our sole Shareholder dated 22 January 2020, our Company increased its authorised share capital from HK\$380,000 divided into 38,000,000 Shares of par value HK\$0.01 each to HK\$50,000,000 divided into 5,000,000,000 Shares of par value HK\$0.01 each by the creation of an additional 4,962,000,000 Shares; and

- (c) immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued by our Company pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), the authorised share capital of our Company will be HK\$50,000,000 divided into 5,000,000,000 Shares and the issued share capital of our Company will be HK\$10,000,000 divided into 1,000,000,000 Shares, all fully paid or credited as fully paid and 4,000,000,000 Shares will remain unissued.

Other than the Shares issuable pursuant to the exercise of the Over-allotment Option or any options which may fall to be granted under the Share Option Scheme, or the exercise of the general mandate referred to in “A. Further information about our Company and our subsidiaries – 3. Written resolutions of our sole Shareholder dated 22 January 2020” in this Appendix, our Directors do not have any present intention to issue any part of the authorised but unissued share capital of our Company and, without the prior approval of our Shareholders at the general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as aforesaid and as mentioned in the sections headed “Share capital” and “History, Reorganisation and group structure – Reorganisation” in this prospectus, there has been no alteration in the share capital of our Company since the date of its incorporation.

3. Written resolutions of our sole Shareholder dated 22 January 2020

Pursuant to the written resolutions dated 22 January 2020 passed by the sole shareholder of our Company, among other matters:

- (a) our Company approved and adopted the Memorandum of Association with immediate effect and the Articles with effect from the Listing Date, the terms of which are summarised in Appendix III to this prospectus;
- (b) the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares of par value HK\$0.01 each to HK\$50,000,000 divided into 5,000,000,000 Shares of par value HK\$0.01 each by the creation of an additional 4,962,000,000 Shares to rank *pari passu* with the existing Shares in all respects at the date of passing of these resolutions;
- (c) conditional on (A) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned herein (including any Shares which may be issued pursuant to the Share Offer and the Capitalisation Issue, any Shares which may be allotted and issued by our Company pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme); and (B) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with its terms or otherwise, in each case on or before the date falling 30 days after the date of issue of this prospectus:

- (i) the Share Offer and the Over-allotment Option were approved and our Directors or any committee of our Board were authorised to (1) allot and issue the Offer Shares and Shares which may be required to be issued upon the exercise of the Over-allotment Option pursuant to the Share Offer to rank *pari passu* with the then existing Shares in all respects; (2) implement the Share Offer and the Listing; and (3) do all things and execute all documents in connection with or incidental to the Share Offer and the Listing with such amendments or modifications (if any) as our Directors or any committee of the Board may consider necessary or appropriate;
- (ii) the Over-allotment Option shall be granted, in whole or in part, to several Placing Underwriters exercisable by the Joint Lead Managers (for themselves and on behalf of the Placing Underwriters), pursuant to which our Company may allot and issue up to an aggregate of 37,500,000 Shares at the Offer Price, to, among other things, cover any over-allocations in the Placing and/or to satisfy the obligation of the Stabilising, Manager to return securities borrowed under the Stock Borrowing Agreement, subject to the terms of the Placing Underwriting Agreement;
- (iii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “Share Option Scheme” in this Appendix, were approved and adopted and our Directors were authorised, at their absolute discretion but subject to the terms and conditions of the Share Option Scheme, to implement the same, grant options to subscribe for Shares thereunder and to allot, issue and deal with the Shares pursuant thereto and to take all such steps as they consider necessary or desirable to implement the Share Option Scheme including without limitation: (1) administering the Share Option Scheme; (2) modifying and/or amending the Share Option Scheme from time to time provided that such modifications and/or amendments are effected in accordance with the provisions of the Share Option Scheme relating to modifications and/or amendments and the requirements of the Listing Rules; (3) granting options under the Share Option Scheme and allotting and issuing from time to time any Shares pursuant to the exercise of the options that may be granted under the Share Option Scheme not exceeding 10% of the total number of Shares in issue on the Listing Date; and (4) making application at the appropriate time or times to the Stock Exchange for the listing of, and permission to deal in, any Shares or any part thereof that may thereafter from time to time be allotted and issued pursuant to the exercise of the options granted under the Share Option Scheme; and

- (iv) conditional on the share premium account of our Company being credited as a result of the Share Offer, the Capitalisation Issue was approved, and our Directors were authorised to capitalise an amount of HK\$7,499,900 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par a total of 749,990,000 Shares for allotment and issue to holder(s) of Shares whose name(s) appears on the register of members of our Company at the close of business on 22 January 2020 in proportion (or as nearly as possible without involving fractions) to its/their respective then existing shareholdings in our Company, each carrying the same rights in all respects with the then Share in issue, and our Directors were authorised to give effect to such capitalisation and distributions;
- (d) a general unconditional mandate was given to our Directors to allot, issue and deal with (otherwise than by way of rights issue, scrip dividend schemes or similar arrangements in accordance with the Articles of Association, or pursuant to the exercise of the Over-allotment Option or under the Share Offer or the Capitalisation Issue) Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or securities convertible into Shares, or to make or grant offers, agreements or options which might require the exercise of such power, with the number of Shares not exceeding the sum of (i) 20% of the aggregate number of Shares in issue and as enlarged immediately following completion of the Share Offer and the Capitalisation Issue without taking into account any Shares which may be allotted and issued by our Company pursuant to the exercise of the Over-allotment Option or the exercise of or any options which may be granted under the Share Option Scheme; and (ii) the number of Shares repurchased by our Company under the general unconditional mandate as referred to in paragraph (e) below, and such mandate shall remain in effect until whichever is the earliest of (1) the conclusion of the next annual general meeting of our Company; (2) the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable laws of the Cayman Islands; to be held; and (3) the time which such mandate is revoked, relied or renewed by the passing of an ordinary resolution by our Shareholders in general meeting;

- (e) a general unconditional mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase Shares not exceeding 10% of the aggregate number of Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued by our Company pursuant to the exercise of the Over-allotment Option or the exercise of any options which may be granted under the Share Option Scheme), and such mandate shall remain in effect until whichever is the earliest of (1) the conclusion of the next annual general meeting of our Company; (2) the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable laws of the Cayman Islands to be held; and (3) the time which such mandate is revoked, relied or renewed by the passing of an ordinary resolution by our Shareholders in general meeting; and
- (f) conditional on the passing of the resolutions referred to in sub-paragraphs (d) and (e) above, the general unconditional mandate mentioned in sub-paragraph (d) above was extended by the addition of the aggregate number of Shares which may be allotted or agreed to be allotted, issued or dealt with by our Directors pursuant to such general unconditional mandate of the aggregate number of Shares repurchased by our Company pursuant to the Repurchase Mandate referred to in sub-paragraph (e) above provided that such extended amount shall not exceed 10% of the number of the issued share immediately following the completion of the Share Offer and the Capitalisation Issue (excluding any Shares which may be issued upon the exercise of the Over-allotment Option or the exercise of any options that may be granted under the Share Option Scheme).

4. Reorganisation

The companies comprising our Group underwent the Reorganisation to rationalise the corporate structure of our Group in preparation of the listing, pursuant to which our Company became the holding company of our Group. The Reorganisation involved the following major steps:

- (a) on 15 December 2015, Man Chase was incorporated in the BVI with limited liability. At the time of its incorporation, Man Chase was authorised to issue a maximum of 50,000 shares of a single class, each with a par value of US\$1.00 each, of which 60 fully paid shares had been allotted and issued to Mr. Keng and 40 fully paid shares had been allotted and issued to Ms. Yeung on 18 May 2016;
- (b) on 1 February 2016, Smart Domain was incorporated in the BVI with limited liability. At the time of its incorporation, Smart Domain was authorised to issue a maximum of 50,000 shares of a single class, each with a par value of US\$1.00 each, of which 100 fully paid shares had been allotted and issued to our Company on 10 June 2016;

- (c) on 7 June 2016, our Company was incorporated in the Cayman Islands as an exempted company with limited liability. At the time of its incorporation, our Company had an authorised share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each, of which one nil paid Share was allotted and issued to the initial subscriber, which was subsequently transferred to Man Chase on the same date at nil paid. On 7 June 2016, 99 nil paid Shares were further allotted and issued by our Company to Man Chase;
- (d) on 22 January 2020, our Company entered into the agreement for sale and purchase of shares in Sinomax Securities with Mr. Keng and Ms. Yeung, pursuant to which Mr. Keng and Ms. Yeung transferred the entire issued shares of Sinomax Securities to Smart Domain (as our Company's nominee) for the consideration of HK\$228,797,000, which was satisfied by (i) our Company, at the direction of Mr. Keng and Ms. Yeung, allotting and issuing 9,900 new Shares, credited as fully paid, to Man Chase (as a nominee of Mr. Keng and Ms. Yeung); and (ii) the crediting of 100 nil-paid Shares, which were registered in the name of Man Chase, as fully paid; and
- (e) on 22 January 2020, the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares of par value HK\$0.01 each to HK\$50,000,000 divided into 5,000,000,000 Shares of par value HK\$0.01 each by the creation of an additional 4,962,000,000 Shares to rank *pari passu* with the existing Shares in all respects.

5. Changes in the share capital of subsidiaries of our Company

Our Company's subsidiaries are referred to in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

Save for the subsidiaries mentioned in Appendix I to this prospectus, our Company does not have any other subsidiary.

Save as disclosed in the section headed "History, Reorganisation and group structure" in this prospectus, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

6. Particulars of our subsidiaries

As at the Latest Practicable Date, our Group has two subsidiaries, namely Smart Domain and Sinomax Securities. Set out below is a summary of the corporate information of Smart Domain and Sinomax Securities:

(a) *Smart Domain*

Date of incorporation:	1 February 2016
Registered Office:	P.O. Box 957 Offshore Incorporations Centre Road Town, Tortola British Virgin Islands
Nature:	Limited liability company
Principal business activities:	Investment holding
Issued share capital:	US\$100
Paid up share capital:	US\$100
Sole shareholder:	Our Company

(b) *Sinomax Securities*

Date of incorporation:	6 July 2001
Registered office:	Room 2705-6, 27/F Tower One, Lippo Centre 89 Queensway Hong Kong
Nature:	Limited liability company
Principal business activities:	Provision of (i) brokerage services; (ii) margin financing services; (iii) placing and underwriting services; and (iv) investment advisory
Issued share capital:	HK\$80,000,000
Paid up share capital:	HK\$80,000,000
Sole shareholder:	Smart Domain

7. Repurchase by our Company of its own securities

This section includes information relating to the repurchase by our Company of its Shares or securities, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

(a) Relevant legal and regulatory requirements

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, details of which are summarised below:

(i) Shareholders' approval

All proposed repurchase of Shares (which must be fully paid up) by our Company must be approved in advance by an ordinary resolution of our Shareholders in a general meeting, 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 22 January 2020, a general unconditional mandate (the “**Repurchase Mandate**”) was granted to our Directors authorising them to exercise all powers of our Company to repurchase Shares on the Stock Exchange or on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares not exceeding 10% of the aggregate number of Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue until the conclusion of the next annual general meeting of our Company but excluding any Shares to be issued upon the exercise of the Over-allotment Option or the exercise of any options that may be granted under the Share Option Scheme. The Repurchase Mandate shall remain in effect until whichever is the earliest of: (i) the conclusion of the next annual general meeting of our Company; (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles or other applicable laws of the Cayman Islands; or (iii) the time when the Repurchase Mandate is revoked or varied by the ordinary resolution by the Shareholders in general meeting.

(ii) Source of funds

Any repurchase of securities must be funded out of funds legally available for the purpose in accordance with the Memorandum and Articles, the Listing Rules and the applicable laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the Listing Rules. Under the Companies Law, our Company may make repurchases out of our profit or share premium or out of the proceeds of a fresh issue of the Shares for the purpose of the repurchase. Any amount of premium payable on the purchase over the par value of the Shares to be repurchased must be out of profits of our Company or out of the share premium account of our Company. Subject to satisfaction of the solvency test prescribed by the Companies Law, a repurchase may also be made out of capital.

(iii) Trading restrictions

Our Company may repurchase up to 10% of the aggregate number of Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued by our Company pursuant to the exercise of the Over-allotment Option or the exercise of any options which may be granted under the Share Option Scheme). Our Company may not issue or announce a proposed issue of Shares for a period of 30 days immediately following a repurchase of Shares without the prior approval of the Stock Exchange. Our Company is also prohibited from repurchasing Shares on the Stock Exchange if the repurchase would result in the number of listed Shares which are in the hands of the public falling below the minimum percentage required by the Stock Exchange. The broker appointed by our Company to effect a repurchase of Shares is required to disclose to the Stock Exchange any information with respect to a Share repurchase as the Stock Exchange may require.

In addition, our Company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

(iv) Status of Shares repurchased

All Shares repurchased (whether on the Stock Exchange or otherwise and their listing) will be cancelled and the certificates for those Shares must be cancelled and destroyed. Under the Cayman Islands law, a company's shares repurchased may be treated as cancelled and the amount of the company's issued share capital shall be reduced by the aggregate par value of the shares repurchased accordingly although the authorised share capital of the company will not be reduced.

(v) Suspension of repurchase

Any repurchase of Shares is prohibited after inside information has come to our Company's knowledge, or development which may constitute inside information has occurred or has been the subject of a decision, until such time as the inside information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (i) the date of our Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the results of our Company for any year, half-year or quarter-year period or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for our Company to announce its results for any year, half-year or quarter-year period under the Listing Rules or any other interim period (whether or not required under the Listing Rules) and in each case ending on the date of the results announcement, our Company may not repurchase its securities on the Stock Exchange unless the circumstances are exceptional. In addition, the Stock Exchange reserves the right to prohibit repurchase of Shares on the Stock Exchange if our Company has breached the Listing Rules.

(vi) Reporting requirements

Certain information relating to repurchase of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange no later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the Business Day following any day on which our Company makes a purchase of Shares. In addition, our Company's annual report is required to disclose details regarding repurchase of Shares made during the financial year, including the number of Shares repurchased each month (whether on the Stock Exchange or otherwise) and the purchase price per Share or the highest and lowest prices paid for all such repurchases, where relevant, and the aggregate prices paid. The directors' report is also required to contain reference to the repurchases made during the year and the directors' reasons for making such repurchases.

(vii) Core connected persons

According to the Listing Rules, our Company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "core connected person", that is, a director, chief executive or substantial shareholder of such company or any of its subsidiaries or any of their close associates and a core connected person shall not knowingly sell his/her/its securities to our Company on the Stock Exchange.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have a general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of our Company and/or earnings per Share and will only be made when our Directors believe that such repurchase will benefit our Company and our Shareholders as a whole.

(c) Funding of repurchase

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Memorandum and Articles, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account the current working capital position of our Group, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this prospectus. Our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

(d) General

The exercise in full of the Repurchase Mandate, on the basis of 1,000,000,000 Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued by our Company pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), would result in up to 100,000,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force, that is until the earliest of:

- (a) the conclusion of our Company's next annual general meeting;
- (b) the expiration of the period within which our Company's next annual general meeting is required to be held by any applicable laws of the Cayman Islands or the Articles; or
- (c) it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

None of our Directors nor, to the best of their knowledge, information and belief having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company or our subsidiaries.

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 Listing Rules and the applicable laws and regulations from time to time in force in the Cayman Islands.

If, as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could 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 presently aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchase pursuant to the Repurchase Mandate immediately after the Listing.

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 Listing Rules).

No core connected person (as defined in the Listing Rules) has notified our Company that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP**1. Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business of our Group) have been entered into by members of our Group within the two years immediately preceding the date of this prospectus, and are or may be material in relation to the business of our Company taken as a whole:

- (a) the agreement for sale and purchase of shares in Sinomax Securities dated 22 January 2020 and entered into among our Company, Mr. Keng and Ms. Yeung, pursuant to which Mr. Keng and Ms. Yeung transferred the entire issued shares of Sinomax Securities to Smart Domain (as our Company's nominee) in consideration of which (i) our Company, at the direction of Mr. Keng and Ms. Yeung, allotted and issued 9,900 new Shares, credited as fully paid, to Man Chase (as a nominee of Mr. Keng and Ms. Yeung); and (ii) credited as fully paid the 100 nil-paid Shares which were registered in the name of Man Chase;
- (b) the Deed of Indemnity;
- (c) the Deed of Non-competition; and
- (d) the Public Offer Underwriting Agreement.

2. Intellectual property rights owned by our Group*(a) Trademark*


As at the Latest Practicable Date, our Group has registered the following trademark with the Trade Mark Registry of Hong Kong in relation to our business:

Trademark	Registered owner	Class	Place of registration	Registration number	Registration date	Expiry date
	Our Company	36 (Note)	Hong Kong	303827728	5 July 2016	4 July 2026

Note:

Class 36: Financial services; monetary affairs; brokerage services; stocks and bonds brokerage; securities brokerage; stock exchange quotations.

As at the Latest Practicable Date, we applied for the registration of the following trade mark with the Trade Mark Registry of Hong Kong, the registration of which is still in process:

Trademark	Applicant	Class	Place of application	Application no.	Application date
 Sinomax Securities Ltd. 佳富達證券	Sinomax Securities	36 (Note)	Hong Kong	305026121	14 August 2019

Note:

Class 36: Financial services; monetary affairs; brokerage services; stocks and bonds brokerage; securities brokerage; stock exchange quotations.

(b) Domain names

As at the Latest Practicable Date, our Group has registered the following domain names:

Domain name	Registered owner	Registration date	Expiry date
hkfsfinance.com	Our Company	13 June 2016	17 May 2022
sinomaxsec.com.hk	Sinomax Securities	16 January 2002	19 January 2024

Save as disclosed above, there were no other trade or service marks, patents, copyrights, other intellectual or industrial property rights which were material to the business of our Group as at the Latest Practicable Date.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Directors

(a) *Interests of Directors and the chief executive of our Company in Shares, underlying shares and debentures of our Company and our associated corporations*

Immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued by our Company pursuant to the exercise of the Over-allotment Option or any exercise of any options which may be granted under the Share Option Scheme), the interests or short positions of each of our Directors or chief executive of our Company in the Shares, underlying shares or debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which, once the Shares are listed on the Stock Exchange would have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules, once the Shares are listed, will be as follows:

Long position in our Shares

Name of Director	Capacity/ nature of interest	Number of Shares held/ interested in immediately following the Share Offer and Capitalisation Issue (Note 1)	Percentage of issued share capital/ interested in immediately following the Share Offer and Capitalisation Issue
Mr. Keng	Interest of a controlled corporation (Note 2)	750,000,000 (L)	75%

Notes:

- The letter “L” denotes to the long position in the Shares.
- Mr. Keng is deemed to be interested in the Shares held by Man Chase as Man Chase is owned as to 60% by Mr. Keng.

Long position in the shares of associated corporations

Name of associated corporation	Name of Director	Capacity/nature of interest	Number of shares held/interested in the associated corporation (Note)	Percentage of issued share capital/interested in the associated corporation
Man Chase	Mr. Keng	Beneficial owner	60 (L)	60%

Note:

The letter “L” denotes to the long position in the shares.

2. Substantial shareholder

So far as is known to our Directors, immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued by our Company pursuant to the exercise of the Over-allotment Option or the exercise of any options which may be granted under the Share Option Scheme), the following persons (not being a Director or chief executive of our Company) will have an interest or a short position in the Shares or 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, which will be recorded in the register of our Company required to be kept under section 336 of the SFO, and who will be, directly or indirectly, interested in 10% or more of the issued voting shares of our Company or any other members of our Group:

Long position in our Shares

Name	Capacity	Number of Shares held/interested in immediately following the Share Offer and Capitalisation Issue (Note 1)	Percentage of issued share capital/interested in immediately following the Share Offer and Capitalisation Issue
Man Chase	Beneficial owner (Note 2)	750,000,000 (L)	75%
Ms. Yeung	Interest of a controlled corporation (Note 2)	750,000,000 (L)	75%
Ms. Mei Ngar Cindy Sze	Interest of spouse (Note 3)	750,000,000 (L)	75%
Mr. Ng Hoi Shuen	Interest of spouse (Note 4)	750,000,000 (L)	75%

Notes:

1. The letter “L” denotes to the long position in the Shares.
2. Man Chase is owned as to 60% by Mr. Keng and 40% by Ms. Yeung. Each of Mr. Keng and Ms. Yeung is deemed to be interested in the Shares in which Man Chase is interested in under Part XV of the SFO.
3. Ms. Mei Ngar Cindy Sze is the spouse of Mr. Keng.
4. Mr. Ng Hoi Shuen is the spouse of Ms. Yeung.

3. Particulars of Directors’ services contracts and letters of appointment

Each of our executive Directors, has entered into a service contract with our Company for an initial term of three years commencing from the Listing Date (subject to rotation according to the Articles) and renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term, unless terminated by not less than three months’ notice in writing served by either party on the other expiring at the end of the initial term of any time thereafter. Each of our executive Directors is entitled to their respective basic salary set out below (such salary to be reviewed annually by our Board and our remuneration committee) and a discretionary bonus (as our Board and our remuneration committee may approve). An executive Director is required to abstain from voting and is not counted in the quorum in respect of any resolution of the Directors regarding the amount of the monthly salary and the discretionary bonus payable to him.

Each of our non-executive Director and independent non-executive Directors has entered into a letter of appointment with our Company. The terms and conditions of each of such letters of appointment are similar in all material respects. Each of our non-executive Director and independent non-executive Directors is appointed with an initial term of three years commencing from the Listing Date, provided that either party may terminate such appointment at any time by giving at least three months’ notice in writing on the other.

Save as aforesaid, none of our Directors has or is proposed to have a service contract or letter of appointment 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)).

4. Directors' emoluments

The remunerations of our Directors are determined by our Company with reference to the duties and level of responsibilities of each Director, the remuneration policy of our Company (which shall have reference to performance and competence displayed by our Directors and market comparable) and the prevailing market conditions.

- (i) For each of the years ended 31 March 2017, 2018 and 2019, the aggregate remuneration and benefits in kind paid by our Group to our Directors were approximately HK\$511,000, HK\$630,000 and HK\$913,000, respectively. Details of our Directors' remuneration during the Track Record Period are set out in note 15 of the Accountants' Report in Appendix I to this prospectus. Save as disclosed in this prospectus, no other emoluments have been paid or are payable by our Group to our Directors during the Track Record Period.
- (ii) Under the arrangements currently in force, the aggregate remuneration and benefits in kind payable by our Group to our Directors for the year ending 31 March 2020 and 31 March 2021 is expected to be approximately HK\$1,668,000 and HK\$2,298,000 respectively. The expected increase in remuneration of our Directors for the year ending 31 March 2021 is due to the increase in basic annual remuneration of our non-executive Director upon the Listing and the remuneration payable to our independent non-executive Directors upon the Listing.
- (iii) None of our Directors or any past directors of any member of our Group has been paid any sum of money for each of the years ended 31 March 2017, 2018 and 2019 (1) as an inducement to join or upon joining our Company or (2) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (iv) Save as disclosed in the sections headed "Directors and senior management" and "Financial information" in this prospectus, there has been no arrangement under which a Director has waived or agreed to waive any remuneration for each of the years ended 31 March 2017, 2018 and 2019.

- (v) Under the arrangements currently proposed, conditional upon the Listing, the basic annual remuneration (other than payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of our Directors will be as follows:

Executive Directors	<i>HK\$</i>
Mr. Sy	822,000
Mr. Ng	756,000
Non-executive Director	<i>HK\$</i>
Mr. Keng	360,000
Independent non-executive Directors	<i>HK\$</i>
Dr. Yu	120,000
Dr. Ho Chung Tai Raymond	120,000
Mr. Lai Man Sing	120,000

- (vi) Each of our executive Directors, non-executive Director and independent non-executive Directors is entitled to reimbursement of all necessary and reasonable out-of-pocket expenses properly incurred in relation to all business and affairs carried out by our Group from time to time or in discharge of his duties to our Group under his service contract or letter of appointment (as the case may be).
- (vii) Following the Listing, remuneration of our Directors, which may include discretionary benefits, bonuses and other fringe benefits, will be linked to their performance, which shall be subject to the annual review of our remuneration committee.

5. Agency fees or commissions received

Save as disclosed in the paragraph headed “Commission and expenses” in the “Underwriting” section of this prospectus, and in the paragraph headed “E. Other information – 3. Sole Sponsor” in this Appendix, none of our Directors or any of the persons whose names are listed under the section headed “E. Other information – 7. Consents of experts” below had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this prospectus.

6. Related party transactions

Save as disclosed in note 30 of the Accountants' Report set out in Appendix I to this prospectus, during the two years immediately preceding the date of this prospectus, our Group has not engaged in any other material related party transactions.

7. Disclaimers

Save as disclosed in this prospectus:

- (i) our Directors are not aware of any person who immediately following the completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued by our Company pursuant to the exercise of the Over-allotment Option or the exercise of any options which may be granted under the Share Option Scheme) will have an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will be, directly or indirectly, interested in 10% or more of the issued voting shares of our Company or any other member of our Group;
- (ii) immediately following the completion of the Share Offer and the Capitalisation Issue, none of our Directors or the chief executive of our Company has any interests or short positions in the Shares, underlying shares, and debentures of our Company or 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 pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in 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 required to be kept therein, or which will be required to notify our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules, once the Shares are listed on the Stock Exchange;
- (iii) none of our Directors nor or the experts named in the paragraph headed "E. Other Information – 6. Qualifications of experts" in this appendix has been interested in the promotion of, or has any direct or indirect interest in any assets acquired or disposed of by or leased to, any member of our Group within the two years immediately preceding the date of this prospectus, or which are proposed to be acquired or disposed of by or leased to any member of our Group nor will any Director apply for the Offer Shares either in his own name or in the name of a nominee;
- (iv) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole; and

- (v) none of the experts named in the paragraph headed “E. Other Information – 6. Qualifications of experts” in this appendix, whether legally or beneficially, has any shareholding in any company in our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in our Group.

D. SHARE OPTION SCHEME

Set out below is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by a resolution of our Board on 22 January 2020. The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

1. Summary of the terms of the Share Option Scheme

(i) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to provide an incentive or a reward to eligible persons for their contribution to our Company and its subsidiaries and/or to enable our Group to recruit and retain high-calibre employees and attract human resources that are valuable to our Group or any entity in which our Group holds any equity interest (“**Invested Entity**”).

(ii) Who may join

Subject to the provisions in the Share Option Scheme, our Board shall be entitled at any time and from time to time within the period of ten (10) years after the date of adoption of the Share Option Scheme to make an offer to any of the following classes of persons (“**Eligible Participant(s)**”):

- (1) any employee (whether full-time or part-time) of our Company, any of our subsidiaries and any Invested Entity;
- (2) any director (including executive, non-executive and independent non-executive directors) of our Company, any of our subsidiaries or any Invested Entity;
- (3) any supplier of goods or services to any member of our Group or any Invested Entity;
- (4) any customer of our Group or any Invested Entity;
- (5) any consultant, adviser, manager, officer or entity that provides research, development or other technological support to our Group or any Invested Entity; or
- (6) any person who, in the sole discretion of our Board, has contributed or may contribute to our Group or any Invested Entity eligible for options under the Share Option Scheme.

(iii) Maximum number of Shares

- (1) Notwithstanding anything to the contrary herein, 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 of our Company must not, in aggregate, exceed 30% of the total number of Shares in issue from time to time.
- (2) The total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of our Company shall not exceed 100,000,000 Shares, being 10% of the total number of Shares in issue as at the Listing Date (without taking into account the Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option) unless our Company obtains the approval of our Shareholders in general meeting for renewing the 10% limit (“**Scheme Mandate Limit**”) under the Share Option Scheme provided that options lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company will not be counted for the purpose of calculating whether the Scheme Mandate Limit has been exceeded.
- (3) Our Company may seek approval of our Shareholders in general meeting to renew the Scheme Mandate Limit such that the total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of our Company as “renewed” shall not exceed 10% (“**Renewal Limit**”) of the total number of Shares in issue as at the date of the approval of our Shareholders on the renewal of the Scheme Mandate Limit, provided that options previously granted under the Share Option Scheme or any other share option schemes of our Company (including options outstanding, cancelled, lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company or exercised) will not be counted for the purpose of calculating the Renewal Limit.

For the purpose of seeking the approval of our Shareholders for the Renewal Limit, a circular containing the information and the disclaimer as required under the Listing Rules must be sent to our Shareholders.

- (4) Our Company may seek separate approval of our Shareholders in general meeting for granting options beyond the Scheme Mandate Limit provided that the proposed grantee(s) of such option(s) must be specifically identified by our Company before such approval is sought. For the purpose of seeking the approval of our Shareholders, our Company must send a circular to our Shareholders containing a generic description of the specified proposed grantees of such options, the number and terms of the options to be granted, the purpose of granting such options to the proposed grantees with an explanation as to how the terms of options serve such purpose and the information as required under the Listing Rules.

(iv) Maximum entitlement of each Eligible Participant

No option shall be granted to any Eligible Participant if any further grant of options would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including such further grant exceeding 1% of the total number of Shares in issue, unless:

- (1) such further grant has been duly approved, in the manner prescribed by the relevant provisions of Chapter 17 of the Listing Rules, by resolution of our Shareholders in general meeting at which the Eligible Participant and his/her/its associates shall abstain from voting;
- (2) a circular regarding the further grant has been despatched to our Shareholders in a manner complying with, and containing the information specified in, the relevant provisions of Chapter 17 of the Listing Rules (including the identity of the Eligible Participant, the number and terms of the options to be granted and options previously granted to such Eligible Participant); and
- (3) the number and terms (including the subscription price) of such option are fixed before the general meeting of our Company at which the same are approved.

(v) Grant of options to connected persons

- (1) The grant of options to a Director, chief executive or substantial Shareholder of our Company or any of his/her/its respective associates (including discretionary trust in which any connected persons are beneficiary) requires the approval of all our independent non-executive Directors (excluding any independent non-executive Director who is a prospective grantee of the option) and shall comply with the relevant provisions of Chapter 17 of the Listing Rules.
- (2) Where an option is to be granted to a substantial Shareholder or an independent non-executive Director (or any of his/her/its respective associates), and such grant will result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:
 - (a) exceeding 0.1% of the total number of Shares in issue at the relevant time of grant; and

- (b) exceeding an aggregate value (based on the closing price of the shares on the Stock Exchange on the date of each grant) of HK\$5 million, such grant shall not be valid unless:
 - I. a circular containing the details of the grant has been despatched to our Shareholders in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 17 of the Listing Rules, including, in particular, (i) details of the number and terms (including subscription price) of the options to be granted to each connected person of our Company, which must be fixed before the Shareholders' meeting and the date of our Board meeting for proposing such further grant is to be taken as the date of grant for the purposes of calculating the subscription price, and (ii) a recommendation from the independent non-executive Directors (excluding the independent non-executive Director who is the prospective grantee of the option) to the independent Shareholders as to voting; and
 - II. the grant has been approved by our Shareholders in general meeting (taken on a poll) at which all connected persons of our Company shall abstain from voting in favour of the grant.

(vi) Time of acceptance and exercise of an option

An offer of grant of an option may be accepted by an Eligible Participant within the date as specified in the offer letter issued by our Company, being a date not later than 21 Business Days from the date upon which it is made, by which the Eligible Participant must accept the offer or be deemed to have declined it, provided that such date shall not be more than ten (10) years after the date of adoption of the Share Option Scheme.

A consideration of HK\$1 is payable on acceptance of the offer of grant of an option. Such consideration shall in no circumstances be refundable. An option may be exercised in whole or in part by the grantee (or his/her personal representative(s)) at any time before the expiry of the period to be determined and notified by our Board to the grantee which in any event shall not be longer than ten (10) years commencing on the date of the offer letter and expiring on the last day of such ten (10)-year period subject to the provisions for early termination as contained in the Share Option Scheme.

(vii) Performance targets

There is no performance target that has to be achieved before the exercise of any option.

(viii) Subscription price for Shares

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price determined by our Board in its absolute discretion and notified to an Eligible Participant, and shall be at least the higher of: (1) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the Offer Date (as defined below), (2) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five consecutive Business Days immediately preceding the Offer Date, and (3) the nominal value of a Share.

Where an option is to be granted to an Eligible Participant, the date of our Board meeting at which the grant was proposed shall be taken to be the date of the offer of such option, which must be a Business Day ("**Offer Date**"). For the purpose of calculating the subscription price, where an option is to be granted fewer than five Business Days after the listing of the Shares on the Stock Exchange, the Offer Price shall be used as the closing price for any Business Day falling within the period before the Listing.

(ix) Ranking of Shares

The Shares to be issued and allotted upon the exercise of an option shall be subject to the Memorandum and the Articles of Association for the time being in force and shall rank *pari passu* in all respects with the fully-paid Shares in issue of our Company as at the date of allotment and issue ("**Exercise Date**"), and will entitle the holders to participate in all dividends or other distributions paid or made on or after the Exercise 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 before the Exercise Date.

(x) Restrictions on the time of grant of options

No option shall be granted after inside information has come to the knowledge of our Company until such information has been announced pursuant to the requirements of the Listing Rules and the Inside Information Provisions of Part XIV of the SFO. In particular, during the period commencing one month immediately preceding the earlier of:

- (1) the date of the meeting of our Board (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and
- (2) the deadline for our Company to publish an announcement of our results for any year or half-year, quarterly or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement, no option shall be granted.

(xi) Period of the Share Option Scheme

Subject to any prior termination by our Company in a general meeting or by our Board, the Share Option Scheme shall be valid and effective for a period of ten (10) years commencing on the date of adoption of the Share Option Scheme (“**Option Period**”), after which period no further option shall be granted but in respect of all options which remain exercisable at the end of such period, the provisions of the Share Option Scheme shall remain in full force and effect.

(xii) Rights on cessation of employment

Where the grantee of an outstanding option ceases to be an employee of our Group for any reason other than his/her death or the termination of his/her employment on one or more of the grounds specified in (xxii)(e), the option shall lapse on the date of cessation (to the extent not already exercised) and not be exercisable unless our Board otherwise determines to grant an extension (to the extent which has become exercisable and not already exercised) and subject to any other terms and conditions decided at the discretion of our Board. For the avoidance of doubt, such period of extension (if any) shall be granted within and in any event ended before the expiration of the period of one month following the date of his/her cessation to be an employee of our Group.

(xiii) Rights on death

Where the grantee of an outstanding option dies before exercising the option in full or at all, and none of the events specified in (xxi)(e) which would be a ground for termination of his/her employment or engagement arises, the option may be exercised in full or in part (to the extent not already exercised) by his/her personal representative(s) within 12 months following the date of his/her death or such longer period as our Board may at its absolute discretion determine from the date of death to exercise the option up to the entitlement of such grantee as at the date of death (to the extent which has become exercisable and not already exercised).

(xiv) Rights on a general offer

In the event of a general or partial offer (whether by way of take-over offer, share buy-back offer or scheme of arrangement or otherwise in like manner) being 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 association or concert with the offeror, and if such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his/her/its option (to the extent not already exercised) to its full extent or to the extent specified in the grantee’s notice to our Company in exercise of his/her/its option within one month after the date on which the offer becomes or is declared unconditional.

(xv) Rights on winding-up

In the event that a notice is given by our Company to our Shareholders to convene a general meeting for the purposes of considering and, if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall, on the same date as or soon after it despatches such notice to each Shareholder, give notice thereof to all grantees (together with a notice of existence of this provision) and thereupon, each grantee (or his/her personal representative(s)) shall, subject to the provisions of all applicable laws, be entitled to exercise all or any of his/her/its options (to the extent which has become exercisable and not already exercised) at any time not later than two Business Days prior to the proposed general meeting of our Company, by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate exercise price for the Shares in respect of which the notice is given, whereupon our Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot and issue the relevant Shares to the grantee credited as fully paid, which Shares shall rank *pari passu* with all other Shares in issue on the date prior to the passing of the resolution to wind-up our Company to participate in the distribution of assets of the company available in liquidation.

(xvi) Rights on scheme of arrangement

In the event of a general or partial offer by way of scheme of arrangement is made to all the holders of Shares and has been approved by the necessary number of holders of Shares at the requisite meetings, the grantee (or his/her personal representative(s)) may thereafter (but only until such time as shall be notified by our Company, after which it shall lapse) exercise the option (to the extent which has become exercisable and not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company at any time thereafter and the record date for entitlements under the scheme of arrangement.

(xvii) Rights on compromise or arrangement between our Company and our creditors

In the event of a compromise or arrangement between our Company and our creditors (or any class of them) or between our Company and our Shareholders (or any class of them) in connection with a scheme for the reconstruction or amalgamation of our Company, our Company shall give notice thereof to all grantees on the same day as it gives notice of the meeting to our Shareholders or creditors to consider such a compromise or arrangement, and thereupon any grantee (or his/her personal representative(s)) may by notice in writing to our Company accompanied by the remittance of the subscription price in respect of the relevant option (such notice to be received by our Company not later than two Business Days before the proposed meeting) exercise any of his/her/its options (to the extent which has become exercisable and not already exercised) whether in full or in part, but the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court of competent jurisdiction and becoming

effective. Our Company shall as soon as possible and in any event no later than the Business Day immediately prior to the date of the proposed meeting referred to above, allot and issue such number of Shares to the grantee which may fall to be issued on such exercise credited as fully paid and register the grantee as holder of such Shares. Upon such compromise or arrangement becoming effective, all options shall lapse except insofar as previously exercised under the Share Option Scheme. Our Company may require the grantee (or his/her personal representative(s)) to transfer or otherwise deal with the Shares issued as a result of the exercise of options in these circumstances so as to place the grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

(xviii) Reorganisation of capital structure

In the event of any alteration in the capital structure of our Company whilst any option has been granted and remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital of our Company (other than an issue of shares as consideration in respect of a transaction), the company shall (if applicable) make corresponding alterations (if any), in accordance with the Listing Rules and any applicable guidance/interpretation of the Listing Rules issued by the Stock Exchange from time to time (including but not limited to the supplementary guidance issued on 5 September 2005), to:

- (1) the number and/or nominal amount of Shares subject to the options already granted so far as they remain exercisable; and/or
- (2) the subscription price; and/or
- (3) the maximum number of Shares referred to in sub-paragraphs (iii) and (iv) above provided that:
 - (aa) no such alteration shall be made in respect of an issue of Shares or other securities by our Company as consideration in a transaction;
 - (bb) any such alterations must be made so that each grantee is given the same proportion of the equity capital of our Company as that to which he/she/it was previously entitled;
 - (cc) no such alterations shall be made which would result in the subscription price for a Share being less than its nominal value; and
 - (dd) any such alterations, save those made on a capitalisation issue, shall be confirmed by an independent financial adviser or the auditors in writing to the Directors, to be in their opinion fair and reasonable, as satisfying the requirements of provisions referred to in sub-paragraphs (bb) and (cc) above.

(xix) Cancellation of options

Our Board may, with the consent of the relevant grantee, at any time at its absolute discretion cancel any option granted but not exercised. Where our Company cancels options and offers new options to the same option holder, the offer of such new options may only be made under the Share Option Scheme with available options (to the extent not yet granted and excluding the cancelled options) within the Scheme Mandate Limit approved by the shareholders.

(xx) Termination of the Share Option Scheme

Our Company, by 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 option will be offered but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect. Options granted prior to such termination and not then exercised shall continue to be valid and exercisable in accordance with the Share Option Scheme and the Listing Rules.

(xxi) Rights are personal to grantee

An option shall be personal to the grantee and shall not be assignable nor transferable, and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (whether legal or beneficial) in favour of any third party over or in relation to any option or enter into any agreement to do so. Any breach of the foregoing by the grantee shall entitle our Company to cancel any option or part thereof granted to such grantee (to the extent not already exercised) without incurring any liability on the part of our Company.

(xxii) Lapse of option

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the expiry of the Option Period (subject to the provision referred to in sub-paragraph (xx));
- (b) the expiry of the periods referred to in sub-paragraphs (xii), (xiii) or (xvii), where applicable;
- (c) subject to the court of competent jurisdiction not making an order prohibiting the offeror from acquiring the remaining Shares in the offer, the expiry of the period referred to in sub-paragraph (xiv);
- (d) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in sub-paragraph (xvi);

- (e) the date on which the grantee ceases to be an Eligible Participant by reason of the termination of his/her/its employment or engagement on the grounds that he/she/it has been guilty of misconduct, or has been in breach of a material term of the relevant employment contract or engagement contract, or appears either to be unable to pay or have no reasonable prospect to be able to pay debts, or has committed any act of bankruptcy, or has become insolvent, or has been served a petition for bankruptcy or winding-up, or has made any arrangements or composition with his/her/its creditors generally, or has been convicted of any criminal offence or (if so determined by our Board, the board of the relevant subsidiary or the board of the relevant associated company of our Company, as the case may be) on any other ground on which an employer or a sourcing party would be entitled to terminate his/her/its employment or engagement at common law or pursuant to any applicable laws or under the grantee's service contract or supply contract with our Company, the relevant subsidiary or the relevant associated company of our Company (as the case may be);
- (f) the date of the commencement of the winding-up of our Company;
- (g) the date on which the grantee commits a breach of sub-paragraph (xxi); or
- (h) the date on which the option is cancelled by our Board as set out in sub-paragraph (xix).

(xxiii) Alterations to the Share Option Scheme

- (1) The Share Option Scheme may be amended or altered in any respect to the extent allowed by the Listing Rules by resolution of our Board except that the following alterations must be approved by a resolution of our Shareholders in general meeting:
 - (aa) any changes to the definitions of Eligible Participant, grantee and option period;
 - (bb) any changes to the terms and conditions of the Share Option Scheme to the advantage of the grantees of the options;
 - (cc) any alterations to the terms and conditions of the Share Option Scheme which are of a material nature;
 - (dd) any changes to the terms of options granted; and

- (ee) any changes to the authority of our Board in relation to any alteration to the terms of the Share Option Scheme except where such alterations take effect automatically under the existing terms of the Share Option Scheme, provided that: (aa) the amended terms of the Share Option Scheme or the options must comply with Chapter 17 of the Listing Rules; and (bb) no such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction in writing of such number of grantees as shall together hold options in respect of not less than three-fourths in nominal value of all shares then subject to the option granted under the Share Option Scheme.
- (2) Notwithstanding the other provisions of the Share Option Scheme, the Share Option Scheme may be amended or altered in any respect by resolution of our Board without the approval of our Shareholders or the grantee(s) to the extent such amendment or alteration is required by the Listing Rules or any guidelines issued by the Stock Exchange from time to time.
- (3) Our Company must provide to all grantees all details relating to changes in the terms of the Share Option Scheme during the life of the Share Option Scheme immediately upon such changes taking effect.

(xxiv) Conditions

The Share Option Scheme is conditional on:

- (aa) the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Capitalisation Issue, the Share Offer and any Shares which may fall to be issued pursuant to the exercise of any options under the Share Option Scheme;
- (bb) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise; and
- (cc) the commencement of dealings in the Shares on the Stock Exchange.

2. Present status of the Share Option Scheme*(i) Approval and adoption of the rules of the Share Option Scheme*

The rules of the Share Option Scheme were approved and adopted by our Company on 22 January 2020.

(ii) Approval of the Stock Exchange required

The Share Option Scheme is conditional, among other matters, on the Stock Exchange granting the listing of, and permission to deal in, such number of Shares to be issued pursuant to the exercise of the options under the Share Option Scheme up to the 10% of the Shares in issue as at the Listing Date.

(iii) Application for listing

Application has been made to the Stock Exchange for the listing 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. The total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of our Company shall not exceed 100,000,000 Shares, being 10% of the total number of Shares in issue as at the Listing Date, unless our Company obtains the approval of our Shareholders in general meeting for renewing the said 10% limit under the Share Option Scheme provided that options lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company will not be counted for the purpose of calculating the 10% limit mentioned above.

(iv) Grant of option

As at the Latest Practicable Date, no options have been granted or agreed to be granted under the Share Option Scheme.

(v) Value of options

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

E. OTHER INFORMATION**1. Tax and other indemnities**

Each of Man Chase, Mr. Keng and Ms. Yeung, being our Controlling Shareholders, and our Company entered into the Deed of Indemnity referred to in the section headed “B. Further information about the business of our Group – 1. Summary of material contracts” in this appendix, under which our Controlling Shareholders have given joint and several indemnities in favour of our Group in respect of, among other things,

- (a) the amount of any and all taxation falling on any member of our Group resulting from or by reference to any income, profits, gains earned, accrued or received on or before the Listing Date or any event or transaction entered into or occurring on or before the Listing Date whether alone or in conjunction with any circumstances whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company; and
- (b) any taxation claim, together with all necessary costs (including all legal costs), expenses, all interests, penalties, claims, losses, damages or other liabilities which any of the members of our Group may properly and reasonably incur in connection with (i) the investigation, assessment, contesting or the settlement of any taxation claim under the Deed of Indemnity; (ii) any legal proceedings in which any of the members of our Group claims under or in respect of the Deed of Indemnity and in which judgment is given for any of the members of our Group; or (iii) the enforcement of any such settlement or judgment referred to in (ii) and (iii) above, falling on any of the members of our Group resulting from or by reference to any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received, or of any transactions entered into, or the occurrence of any matters of things on or before the Listing Date or arising from the reorganisation of our Group described in the paragraph headed “Reorganisation” in the section headed “History, Reorganisation and group structure” in this prospectus on or before the Listing Date whether alone or in conjunction with any circumstances whenever occurring and whether or not such taxation or taxation claim is chargeable against or attributable to any other person, firm or company.

The indemnity contained above shall not apply:

- (i) to the extent that full provision or reserve has been made for such taxation in the consolidated audited accounts of our Group or the audited accounts of the relevant member of our Group for each of the three financial years ended 31 March 2019, as set out in Appendix I to this prospectus; or
- (ii) to the extent that such taxation or taxation claim would not have arisen but for some act or omission of, or transaction entered into by any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) otherwise than in the course of normal day to day operations of that company or carried out, made or entered into pursuant to a legally binding commitment created on or before the Listing Date; or

- (iii) to the extent that any provisions or reserve made for taxation in the audited accounts of any member of our Group for each of the years ended 31 March 2017, 2018 and 2019 which is finally established to be an over-provision or an excessive reserve in which case the indemnifiers' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied pursuant to the Deed of Indemnity to reduce our Controlling Shareholders' liability in respect of taxation shall not be available in respect of any such liability arising thereafter; or
- (iv) to the extent that such taxation liability or taxation claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the laws, rules and regulations or the interpretation or practice thereof by the Inland Revenue Department in Hong Kong or any other relevant authority (whether in Hong Kong or any other part of the world) coming into force after the Listing Date or to the extent that such taxation claim arises or is increased by an increase in rates of taxation after the Listing Date with retrospective effect.

Under the Deed of Indemnity, our Controlling Shareholders have also given indemnities in favour of our Group whereby they would jointly and severally indemnify each member of our Group against, among others, all claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines and of whatever nature suffered or incurred by any member of our Group (i) as a result of directly or indirectly or in connection with, or in consequence of any non-compliance with or breach of any applicable laws, rules or regulations of any jurisdiction by any member of our Group on or before the Listing Date (including any matters referred to in the paragraph headed "Non-compliance and disciplinary actions" in the section headed "Business" of this prospectus); (ii) as a result of directly or indirectly or in connection with any litigation, proceeding, claim, investigation, inquiry, enforcement proceeding or process by any governmental, administrative or regulatory body which (a) any member of our Group and/or their respective directors or any of them is/are involved; and/or (b) arises due to some act or omission of, or transaction voluntarily effected by, our Group or any member of our Group (whether alone or in conjunction with some other act, omission or transaction) on or before the Listing Date; and (iii) the settlement or enforcement of any settlement or judgment in respect of any taxation claim.

The indemnity contained above shall not apply to the extent that provision has been made for such claim in the consolidated audited accounts of our Group or the audited accounts of any member of our Group for each of the years ended 31 March 2017, 2018 and 2019. Our Directors have been advised that no material liability for estate duty is likely to fall on any member of our Group in the Cayman Islands, Hong Kong and other jurisdictions in which the companies comprising our Group are incorporated.

2. Litigation

As at the Latest Practicable Date, neither our Company nor any of our subsidiaries was engaged in any litigation or arbitration of material importance, and no litigation or claim of material importance was known to our Directors to be pending or threatened against our Company or any of our subsidiaries which would have a material adverse effect on our business, results of operations or financial conditions.

3. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the Share Offer and the Capitalisation Issue, any Shares which may be allotted and issued by our Company pursuant to the exercise of the Over-allotment Option or the exercise of any options which may be granted under the Share Option Scheme).

The Sole Sponsor satisfies the independence criteria applicable to sponsor under Rule 3A.07 of the Listing Rules. The Sole Sponsor is entitled to the sponsor's fee in the amount of HK\$5,200,000 (excluding any disbursements), which is payable by our Company.

4. Preliminary expenses

The preliminary expenses of our Company in relation to the Share Offer are approximately US\$6,000 and are payable by our Company.

5. Promoter

Our Company has no promoter for the purpose of the Listing Rules. Save as disclosed herein, within the two years immediately preceding the date of this prospectus, no cash, securities or benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given, to the promoter above in connection with the Share Offer or the related transactions described in this prospectus.

6. Qualifications of experts

The qualifications of the experts who have given opinions and/or whose names are included in this prospectus are as follows:

Name:	Qualifications
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Deloitte Touche Tohmatsu	Certified Public Accountants
	Registered public interest entity auditors
Vinco Capital Limited	a licensed corporation under the SFO holding a licence to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
Ipsos Limited	Independent industry consultant

7. Consents of experts

Each of the experts named in the section headed “E. Other information – 6. Qualifications of experts” in this appendix has given and has not withdrawn its respective written consent to the issue of this prospectus with copies of its reports and/or letters and/or the references to its name included herein in the form and context in which they are respectively included.

None of the experts named in the section headed “E. Other information – 6. Qualifications of experts” in this appendix has any shareholding interests 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.

8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

9. Compliance adviser

In accordance with the requirements of the Listing Rules, our Company will appoint the Sole Sponsor as our compliance adviser to provide advisory services to our Company to ensure compliance with the Listing Rules for a period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full year commencing after the Listing Date or until the agreement is terminated, whichever is the earlier.

10. Share registrar

Our Company’s principal register of members will be maintained in the Cayman Islands by our Cayman Islands share registrar, Conyers Trust Company (Cayman) Limited, and a register of members will be maintained in Hong Kong by our Hong Kong branch share registrar, Union Registrars Limited. Unless our Directors otherwise agree, all transfers and other documents of title of the Shares must be lodged for registration with and registered by our share registrar in Hong Kong and may not be lodged in the Cayman Islands.

11. Taxation of holders of Shares**(a) Hong Kong**

Dealings in Shares registered on our Company’s Hong Kong Branch Share Register of members will be subject to Hong Kong stamp duty.

Profits from dealings in Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) Cayman Islands

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(c) Consultation with professional advisers

Intending holders of the 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 the Shares. It is emphasised that none of our Company, our Directors or parties involved in the Share Offer accepts responsibility for any tax effect on, or liabilities of holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

12. Bilingual prospectus

The English language and the Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). The English text of this prospectus shall prevail over the Chinese text in case of any discrepancy between the two versions.

13. Miscellaneous

Save as disclosed in this prospectus:

- (a) within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital of our Company or of 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;
 - (ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company or any of our subsidiaries; and
 - (iii) no commission has been paid or payable (excluding commission payable to sub-underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares in our Company;
- (b) no share, warrant or loan capital of Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

- (c) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;
- (d) all necessary arrangements have been made enabling the Shares to be admitted into CCASS;
- (e) our Company has no outstanding convertible debt securities;
- (f) neither our Company nor any of our subsidiaries has issued or agreed to issue any founder shares or management shares or deferred shares or any debentures;
- (g) 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;
- (h) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 March 2019 (being the date to which the latest audited consolidated financial statements of our Group were made up) and up to the date of this prospectus, and there had been no event since 31 March 2019 which would materially effect the information as shown in the Accountants' Report;
- (i) our Directors confirm that there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this prospectus;
- (j) none of the experts listed in the section headed "E. Other information – 6. Qualifications of experts" in this appendix:
 - (i) is interested beneficially or non-beneficially in any shares 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; and
- (k) there is no arrangement under which future dividends are waived or agreed to be waived.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were as follows: (a) copies of the **WHITE** and **YELLOW** Application Forms; (b) copies of the written consents referred to in the section headed “E. Other Information – 6. Consents of experts” in Appendix IV to this prospectus; and (c) a copy of each of the material contracts referred to in the section headed “B. Further information about the business of our Group – 1. Summary of material contracts” in Appendix IV to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Michael Li & Co., at 19/F, Prosperity Tower, No. 39 Queen’s Road Central, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and the Articles of Association;
- (b) the Accountants’ Report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus;
- (c) the audited financial statements of Sinomax Securities Limited for the three years ended 31 March 2019 and the four months ended 31 July 2019 and the management accounts of the Company and Smart Domain Group Limited for the periods from respective incorporation dates to 31 July 2019;
- (d) the report on unaudited pro forma financial information of our Group prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this prospectus;
- (e) the letter of advice prepared by Conyers Dill & Pearman, our legal advisers as to Cayman Islands law, summarising certain aspects of Cayman Islands company law referred to in Appendix III to this prospectus;
- (f) the Companies Law;
- (g) the material contracts referred to in the section headed “B. Further information about the business of our Group – 1. Summary of material contracts” in Appendix IV to this prospectus;

- (h) the service contracts and letters of appointment referred to in the section headed “C. Further information about our Directors and substantial shareholders – 3. Particulars of Directors’ service contracts and letters of appointment” in Appendix IV to this prospectus;
- (i) the written consents referred to in the section headed “E. Other information – 7. Consents of experts” in Appendix IV to this prospectus;
- (j) the Ipsos Report prepared by Ipsos, our industry consultant;
- (k) the rules of the Share Option Scheme; and
- (l) the report on the statement of adjustments of our Group by Deloitte Touche Tohmatsu in arriving at the figures set out in the accountants’ report of our Group set out in Appendix I to this prospectus.

