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**Web Proof Information Pack of**

**Bright Smart Securities & Commodities Group Limited**

**耀才證券金融集團有限公司**

*(incorporated in the Cayman Islands with limited liability)*

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YOU SHOULD READ THE SECTION HEADED “WARNING” ON THE COVER OF THIS WEB PROOF INFORMATION PACK.

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## SUMMARY

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### OVERVIEW

The Group is one of the well-established securities brokerage houses with low brokerage commission rates and primarily focuses on providing online brokerage services in Hong Kong. The Group has now extended its service coverage from securities, futures and options brokerage in Hong Kong to a wide range of financial products traded in the US and Singapore exchanges. Apart from its main business of securities, futures and options brokerage, the Group also provides margin and IPO financings to its clients in Hong Kong. The Group generates its turnover from (i) brokerage commission received from its clients in relation to its securities, futures and options brokerage businesses which was recognised on a trade date basis when relevant transactions are executed; and (ii) interest income generated from its margin and IPO financing to its clients.

Leveraging on its efficient and secure online trading system and low brokerage commission rates, the Group has successfully built up its client base rapidly and recorded significant growth in the number of new securities and futures trading clients during the Track Record Period. For each of the three years ended 31 March 2008, 2009 and 2010, Bright Smart Securities attracted [3,686], [2,063] and [3,682] new clients respectively, which represented a growth in client base of approximately [68.9]%, [23.7]% and [35.1]% respectively whereas Bright Smart Futures attracted [385], [776] and [1,176] new clients respectively, which represented a growth in client base of approximately [60.3]%, [83.1]% and [73.0]% respectively. As a whole, in the same period, the Group attracted [4,071], [2,839] and [4,858] new securities, futures and options clients respectively, which represented a growth in overall client base of approximately [68.0]%, [29.4]% and [40.1]% respectively. According to the information from HKEx, since the first half of 2006, Bright Smart Securities has been qualified as a Constituency B Exchange Participant, which represented the group of Exchange Participants ranked fifteenth to sixty-fifth in terms of market share, with the market share of Bright Smart Securities increasing in general since then.

### Securities brokerage

The Group's business in securities brokerage is undertaken by Bright Smart Securities. The Group executes securities trades on behalf of its clients on the Stock Exchange, based on clients' orders mostly received online, and provides other related services including real time stock quotes, application for IPO issues, collection of cash and scrip dividends, and other corporate action services such as subscription of rights/warrants, privatisation and open offer. The Group generates turnover from its securities brokerage business from commission received from its clients which was recognised on a trade date basis when relevant transactions are executed. For the three years ended 31 March 2008, 2009 and 2010, the respective value of transactions of Bright Smart Securities accounted for approximately 0.909%, 1.074% and 1.091% of the market turnover of the Stock Exchange's securities trading as announced by the Stock Exchange.

As at the Latest Practicable Date, the Group charged its Hong Kong clients a rate of 0.0668% (with a minimum charge of HK\$50) of transaction value for online securities trading, 0.085% (with a minimum charge of HK\$50) of transaction value for securities trading through telephone orders, and 0.15% (with a minimum charge of HK\$50) of transaction value for clients registered as online trading clients but placed orders through telephone. For individual clients with high trading volume, various schemes of brokerage commission rebate are available, where effective brokerage commission rate can

## SUMMARY

be as low as 0.01% for monthly securities transaction amounts (in monetary terms) above certain threshold. [All transaction related levies and applicable stamp duties are borne by the clients of the Group.]

Securities brokerage clients can place orders by phone or online. For each of the three years ended 31 March 2008, 2009 and 2010, value of transactions with orders placed online accounted for approximately 75.0%, 85.6% and 87.6% respectively of Bright Smart Securities’ total value of transactions.

Leveraging on its efficient and secure online trading system and low brokerage commission rates, the Group was able to build up its client base rapidly and recorded significant growth in the number of new securities trading clients during the Track Record Period. For each of the three years ended 31 March 2008, 2009 and 2010, Bright Smart Securities attracted [3,686], [2,063], and [3,682] new clients respectively, which represented a growth in client base of Bright Smart Securities of approximately [68.9]%, [23.7]% and [35.1]% respectively.

| Bright Smart Securities                                                                  | Movement of clients of Bright Smart Securities<br>For the year ended 31 March |        |        |
|------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|--------|--------|
|                                                                                          | 2008                                                                          | 2009   | 2010   |
| [Number of clients at the beginning of the<br>financial year. . . . .]                   | 5,348                                                                         | 8,708  | 10,494 |
| Number of new clients. . . . .                                                           | 3,686                                                                         | 2,063  | 3,682  |
| Number of client accounts closed . . . . .                                               | (326)                                                                         | (277)  | (368)  |
| Number of clients at the end of the<br>financial year. . . . .                           | 8,708                                                                         | 10,494 | 13,808 |
| Number of Active Securities Trading Clients<br>at the end of the financial year. . . . . | 5,933                                                                         | 5,380  | 7,736  |
| Net brokerage commission — securities brokerage<br>(HK\$ million) . . . . .              | 100.3                                                                         | 62.3   | 92.7   |

## SUMMARY

As at 31 March 2008, 31 March 2009 and 31 March 2010, Bright Smart Securities had approximately [5,933], [5,380] and [7,736] Active Securities Trading Clients respectively, whose accounts have recorded at least one securities trading activity in the past twelve months. These Active Securities Trading Clients comprise principally retail clients. Set out below is the breakdown of the Active Securities Trading Clients of Bright Smart Securities by range of commission income (net of rebate) as at 31 March 2008, 2009 and 2010 respectively:

| Bright Smart Securities                | Number of Active Securities Trading Clients |              |              |
|----------------------------------------|---------------------------------------------|--------------|--------------|
|                                        | As at 31 March                              |              |              |
|                                        | 2008                                        | 2009         | 2010         |
| Commission income (net of rebate)      |                                             |              |              |
| Less than or equal to HK\$300. . . . . | 734                                         | 1,476        | 2,010        |
| HK\$301–HK\$500 . . . . .              | 159                                         | 405          | 575          |
| HK\$501–HK\$1,000 . . . . .            | 230                                         | 660          | 887          |
| HK\$1,001–HK\$5,000. . . . .           | 542                                         | 1,445        | 2,073        |
| HK\$5,001–HK\$10,000. . . . .          | 285                                         | 514          | 741          |
| Over HK\$10,000. . . . .               | <u>3,983</u>                                | <u>880</u>   | <u>1,450</u> |
|                                        | <u>5,933</u>                                | <u>5,380</u> | <u>7,736</u> |

Bright Smart Securities provides research to its clients in order to complement the Group’s securities brokerage business. The Group’s research team issues daily, weekly and monthly research reports, which provide the Group’s clients with relevant news summaries, commentaries on general market trends, stock picks, historical performance of particular securities as well as other relevant information such as lists of suspensions, resumptions and placing by listed companies in Hong Kong. The Group’s research team also organises weekly seminars for the public, and attends interviews in television financial programs and seminars organised by outside bodies.

### Financing

Credit facilities are offered by the Group to its clients who would like to purchase securities on a margin basis, which offers funding flexibility to the Group’s clients. For each of the three years ended 31 March 2008, 2009 and 2010, interest income derived from the Group’s margin financing business accounted for approximately 9.2%, 7.7% and 11.0% of the Group’s total turnover respectively.

The Group also provides financing for applications of shares in connection with IPOs. For each of the three years ended 31 March 2008, 2009 and 2010, interest income derived from the Group’s IPO financing business accounted for approximately 31.8%, 0.2% and 7.3% of the Group’s total turnover respectively. No provision for bad debt was recorded by the Group during the Track Record Period.

During the Track Record Period, Bright Smart Securities had entered into certain subordinated loan agreements with Manet Good, pursuant to which Manet Good agreed to grant revolving credit facilities to Bright Smart Securities which were unsecured and borne no interest. The loans have been used for the IPO financing business of the Group, and will be terminated upon [●]. While the Group’s main focus is on its brokerage business and margin financing business, the Group would still participate in IPO financing business after [●] even without the subordinated loans on the basis that part of the net proceeds from the [●] would be used to increase the share capital of Bright Smart Securities. Please refer

## SUMMARY

to the sub-section headed “Financial independence” under the section headed “Relationship with the Controlling Shareholder” for further background information on the subordinated loans from Manet Good.

As at 31 March 2010, the Group had approximately 1,844 Active Margin Clients whose margin securities trading accounts have recorded at least one transaction for purchase and/or sale of securities in the past twelve months.

### Futures and options brokerage

The Group’s business in futures and options brokerage is undertaken by Bright Smart Futures. Bright Smart Futures provides brokerage services for futures and options traded on the Futures Exchange, such as HSI futures and options, and mini-HSI futures and options. Similar to Bright Smart Securities, futures and options brokerage clients are allowed to place orders through telephone or online, with brokerage commission rate for online trading relatively lower than that for trading through telephone orders as at the Latest Practicable Date. For each of the three years ended 31 March 2008, 2009 and 2010, brokerage commission income (net of rebate) generated from orders placed online accounted for approximately 34.9%, 76.9% and [87.3]% respectively of Bright Smart Futures’ total brokerage commission income (net of rebate).

The Group generates turnover from its futures and options brokerage business from commission received from its clients which is recognised on a trade date basis when the relevant transactions are executed. Set out below are the market shares of Bright Smart Futures in the trading of different derivative products according to the turnover ranking issued by the HKEx for the three years ended 31 March 2008, 2009 and 2010:

| Bright Smart Futures                                  | For the year ended 31 March |       |       |
|-------------------------------------------------------|-----------------------------|-------|-------|
|                                                       | 2008                        | 2009  | 2010  |
| HSI futures. . . . .                                  | 0.34%                       | 0.94% | 1.26% |
| HSI options (house and client account). . . . .       | 0.17%                       | 0.69% | 0.90% |
| H-shares index futures . . . . .                      | 0.11%                       | 0.21% | 0.20% |
| H-shares index options (house and client account) . . | 0.00%                       | 0.03% | 0.10% |

As an additional service to the Group’s clients, starting from March 2009, Bright Smart Futures extended its brokerage services to futures products including currency futures, index futures, metal and energy futures, agricultural and food futures and bond futures traded on exchanges in the US and further extended its services to index futures traded on Singapore Exchange Limited in September 2009 through two independent local brokers. Please refer to the sub-section headed “Business activities — Futures and options brokerage — Global futures” under the “Business” section in this document for details.

For each of the three years ended 31 March 2008, 2009 and 2010, gross brokerage commission income generated from futures traded on exchanges in the US and Singapore amounted to approximately HK\$Nil, HK\$0.1 million and HK\$4.5 million respectively, and represented approximately 0%, 1.0% and 17.0% respectively of Bright Smart Futures’ total gross commission income.

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The Group places deposits and maintains trading accounts with the two independent local brokers and provide routing services to its clients in Hong Kong in respect of the above futures products traded on exchanges in the US and Singapore. Clients’ orders received in respect of futures products traded on the relevant US and Singapore exchanges are passed to the relevant brokers for their onward execution on the relevant US and Singapore exchanges. When the Group’s clients give instructions to the Group, it will relay the instructions to the two independent brokers, to deposit, purchase and/or sell overseas futures products and effect other transactions for their trading accounts. The Group pays to the two brokers on demand subscription or commission fees on purchases, sales and other transactions or services for the account, exchange fees, interest as well as other expenses in connection with the use of the designated electronic order entry and routing system to electronic trading facilities, tools and information, data and other software services. On the other hand, the clients pay to the Group commission, charges, brokerage or other remuneration on all transactions from time to time, as well as all applicable levies imposed by any relevant clearing system or exchanges and all applicable stamp duties. The Directors confirmed that the Group has extended its services to futures products traded on the exchanges in the US and Singapore for the convenience of its clients who are interested in trading futures products on exchanges outside Hong Kong without having to open and maintain separate accounts with these brokers.

For each of the three years ended 31 March 2008, 2009 and 2010, Bright Smart Futures attracted [385], [776] and [1,176] new clients respectively, which represent a growth in client base of Bright Smart Futures of approximately [60.3]%, [83.1]% and [73.0]% respectively.

| Bright Smart Futures                                                                               | Movement of clients of Bright Smart Futures<br>For the year ended 31 March |       |       |
|----------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|-------|-------|
|                                                                                                    | 2008                                                                       | 2009  | 2010  |
| [Number of clients at the beginning of the<br>financial year. . . . .                              | 639                                                                        | 934   | 1,612 |
| Number of new clients. . . . .                                                                     | 385                                                                        | 776   | 1,176 |
| Number of client accounts closed . . . . .                                                         | (90)                                                                       | (98)  | (81)  |
| Number of clients at the end of the<br>financial year. . . . .                                     | 934                                                                        | 1,612 | 2,707 |
| Number of Active Futures and Options Trading<br>Clients at the end of the financial year . . . . . | 351                                                                        | 653   | 1,177 |
| Net brokerage commission — futures and<br>options brokerage (HK\$ million) . . . . .               | 3.8                                                                        | 10.2  | 21.9  |

## SUMMARY

As at 31 March 2008, 31 March 2009 and 31 March 2010, Bright Smart Futures had approximately [351], [653] and [1,177] Active Futures and Options Trading Clients respectively, whose accounts have recorded at least one transaction for open and/or close position of future and/or option trading contracts in the past twelve months. These Active Futures and Options Trading Clients comprise principally retail clients. Set out below is the breakdown of the Active Futures and Options Trading Clients of Bright Smart Futures by range of commission income (net of rebate) as at 31 March 2008, 2009 and 2010:

| Bright Smart Futures<br><br>Brokerage commission income net of rebate (in HK\$) | Number of Active Futures and Options Trading Clients |            |              |
|---------------------------------------------------------------------------------|------------------------------------------------------|------------|--------------|
|                                                                                 | As at 31 March                                       |            |              |
|                                                                                 | 2008                                                 | 2009       | 2010         |
| Less than or equal to 300 . . . . .                                             | 94                                                   | 102        | 157          |
| 301 — 500 . . . . .                                                             | 30                                                   | 37         | 45           |
| 501 — 1,000 . . . . .                                                           | 45                                                   | 63         | 108          |
| 1,001 — 5,000 . . . . .                                                         | 101                                                  | 209        | 360          |
| 5,001 — 10,000 . . . . .                                                        | 25                                                   | 91         | 147          |
| Over 10,000 . . . . .                                                           | <u>56</u>                                            | <u>151</u> | <u>360</u>   |
|                                                                                 | <u>351</u>                                           | <u>653</u> | <u>1,177</u> |

## COMPETITIVE ADVANTAGES

As there are many market players in the field of securities, futures and options trading in Hong Kong, the competition in the brokerage industry is extremely intense. Local as well as international brokerage houses and banks compete for both traditional telephone and online based clients within Hong Kong, being one of Asia’s leading financial markets. The number of Stock Exchange Participants and Futures Exchange Participants as at 31 March 2008, 2009 and 2010 are summarised in the table below:

|                                         | As at 31 March |            |            |
|-----------------------------------------|----------------|------------|------------|
|                                         | 2008           | 2009       | 2010       |
| Number of Stock Exchange Participants   |                |            |            |
| — Trading . . . . .                     | 445            | 452        | 468        |
| — Non-trading . . . . .                 | <u>36</u>      | <u>37</u>  | <u>31</u>  |
|                                         | <u>481</u>     | <u>489</u> | <u>499</u> |
| Number of Futures Exchange Participants |                |            |            |
| — Trading . . . . .                     | 143            | 157        | 171        |
| — Non-trading . . . . .                 | <u>—</u>       | <u>—</u>   | <u>—</u>   |
|                                         | <u>143</u>     | <u>157</u> | <u>171</u> |

As at 31 March 2010, there were a total of 499 Stock Exchange Participants and 171 Futures Exchange Participants, 468 and 171 of which were Trading Participants while the remaining 31 and nil were Non-trading Participants in the industry of securities, futures and options trading respectively. As

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## SUMMARY

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compared to 31 March 2009, the number of Stock Exchange Participants and Futures Exchange Participants as at 31 March 2010 increased by 10 (or approximately 2.0%) and 14 (or approximately 8.9%) respectively.

Despite the keen competition in the securities, futures and options brokerage industry, the Directors believe that the competitive strengths of the Group will enable the Group to compete effectively. These include:

### **Long history of establishment with progressive business development**

The Group has established its securities brokerage business since 1999 and its futures and options brokerage business since 1995. In respect of its business development, the Group introduced an online trading system for its securities trading in January 2005 and futures and options trading in October 2007, with a view to allowing its clients to operate their trading activities interactively through the Group’s online trading system without reliance on the Group’s dealers. Moreover, in March 2009, the Group introduced the online global futures trading service to allow its clients to get access to futures products traded on the exchange in the US. The Group further extended its brokerage services to futures products traded on the exchange in Singapore in September 2009.

The Group opened its first branch office in Tsuen Wan on 28 December 2009, and subsequently opened [nine] additional branches as at the Latest Practicable Date, for the purpose of attracting new clients and to facilitate and provide better customer services to its clients. The capital expenditure used in the establishment of the ten existing branches was funded by the Group’s internal resources and the future working capital requirement to support the ten existing branches will also be funded by the Group’s internal resources.

With a long history of establishment and a progressive business development, the Group has built an effective operating system. The Directors believe that the Group can offer quality services and tailored solutions to meet its clients’ needs in a constant changing financial market.

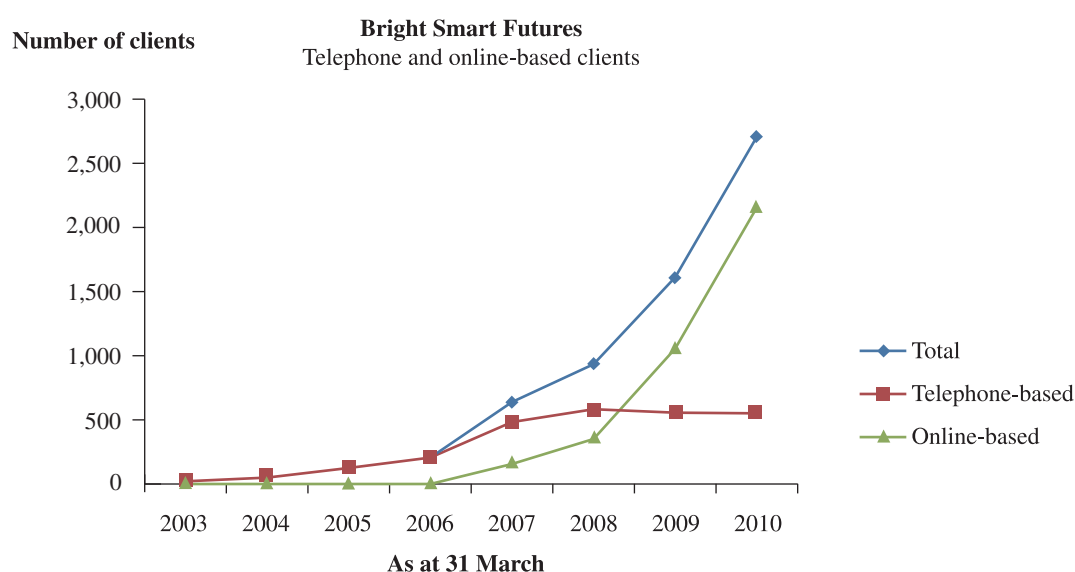
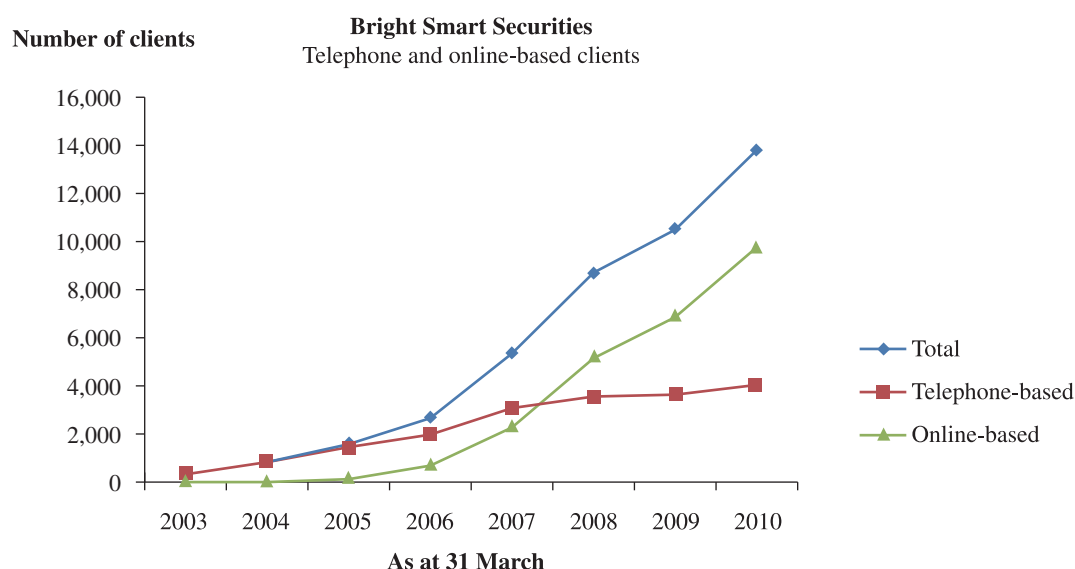
### **Recognised brand image and expanding client base**

The Group has always been positioning itself as a securities house with low brokerage commission, quality and prompt service, and reliable risk management system. To strengthen its market position and build up its market share, the Group has been undertaking extensive sales and marketing activities which include organising investment seminars and placing advertisements through various media. In addition, in 2008, the Group recruited Kwok Sze Chi as the marketing director of the Group who leads investment seminars held by the Group and offer commentaries on market trends and investment advice through various media such as television, newspapers and radio. Mr. Kwok has over [20] years of experience in securities and futures business, and is the Responsible Officer of Bright Smart Securities licensed under the SFO to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities. For each of the three years ended 31 March 2008, 2009 and 2010, the Group incurred advertising and promotion expenses of approximately HK\$4.8 million, HK\$9.0 million and HK\$3.6 million respectively.

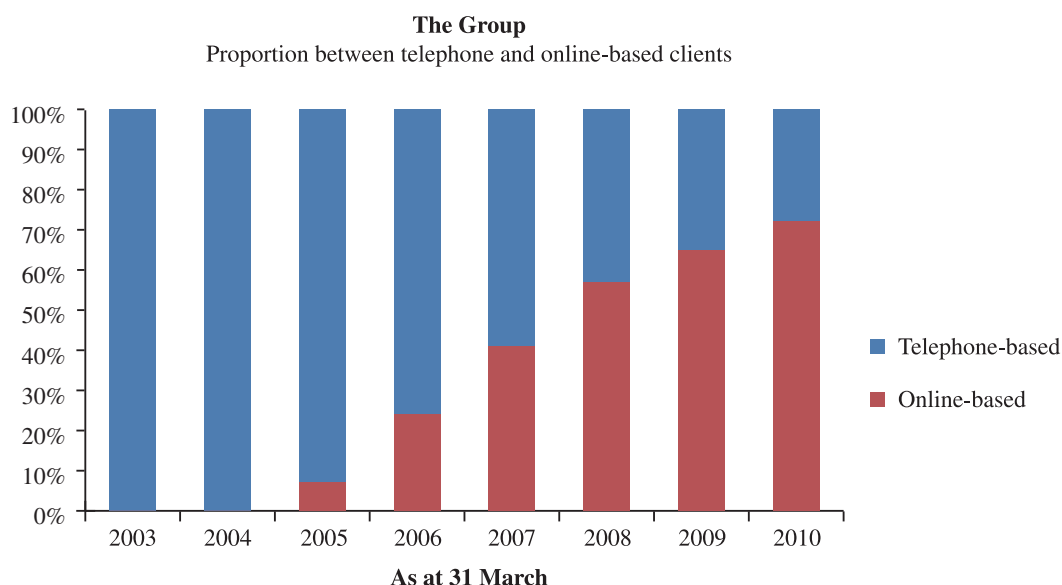
The number of clients of the Group has been increasing in the past few years. The Directors believe that it was attributable to the effective sales and marketing strategies implemented by the Group as well as the introduction of an online trading platform for its securities trading in January 2005 and its

## SUMMARY

futures and options trading in October 2007 respectively. As at 31 March 2008, 2009 and 2010, the number of online-based clients accounted for approximately 57.1%, 65.4%, and 72.2% of the total number of clients of the Group respectively, which indicates that the online trading platform has been playing a vital role in building up the client base of the Group. According to the “Cash Market Transaction Survey 2008/09” conducted by the HKEx for Hong Kong cash market, the number of brokers that offer online trading service to retail investors (who trade on their personal accounts) increased from 97 (or 25.7% of all surveyed brokers in the 2004/05 survey) to 173 (or approximately 42.2% of all surveyed brokers in the 2008/09 survey), indicating an increasing competition in relation to online trading. This also demonstrated the increased importance of online trading in Hong Kong.



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*Note:* Classification between telephone and online-based clients is based on their current selection registered with the Group. Telephone-based clients are not provided with online trading services. Online-based clients are allowed to trade through telephone orders, but will be charged with a higher brokerage commission rate. There is no duplication in the number of telephone and online-based clients.

With effective sales and marketing strategies, the Directors believe that Bright Smart Securities was able to enlarge its client base and increase its market share in past few years. For the three years ended 31 March 2008, 2009 and 2010, the respective value of transactions of Bright Smart Securities accounted for approximately 0.909%, 1.074% and 1.091% of the market turnover of the Stock Exchange’s securities trading as announced by the Stock Exchange.

As at 31 March 2010, the Group had approximately [16,515] client accounts. The Directors believe that this solid client base is built up by its effective business strategies as well as its dedication to provide quality services to meet clients’ needs.

### Competent team of professionals providing quality services

The Group has a Customer Service Department and a Marketing Department, which comprised [83] employees (including employees in branch office) and [4] employees respectively as at the Latest Practicable Date. [81] of the [83] staff members in the Customer Service Department were Licensed Representatives, with the remaining staff members still under training and were in the process of obtaining the status of Licensed Representatives as at the Latest Practicable Date. Unlicensed staff members are not allowed to engage in regulated activities. The Licensed Representatives in the Customer Service Department, led by two senior managers who have an average of seven years working experiences in the financial service industry, are principally responsible for accounts opening, relationship management, accounts enquiry, handling applications for IPOs and confirmations for other corporate actions such as rights issues and stock transfer, and handling complaints. The Marketing Department, supervised by Kwok Sze Chi who is an experienced stock analyst and the marketing director of the Group and has over 20 years of working experience in the financial service industry, is responsible for performing regular review of the market trend, organising events such as investment

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seminars for the public, placing advertisements through various local media including television, newspapers and radio, and publishing monthly newsletters to clients. During the Track Record Period, over 80 investment seminars were organised by the Group. Client’s referral is also one of the major reasons for the Group’s rapid growth in client base. For each of the three years ended 31 March 2008, 2009 and 2010, advertising and promotion expenses incurred by the Group amounted to approximately HK\$4.8 million, HK\$9.0 million and HK\$3.6 million respectively.

Furthermore, the Group has a team of support staff comprising personnel from Legal and Compliance, Settlement, Accounting, Information Technology, Human Resources, Administration and Personnel, Dealings, Analyst, and Property Departments. The Directors believe that the success of the Group under a competitive environment is attributed to a competent and dedicated team of professionals providing quality services to its clients.

### **Effective credit risk management**

Despite the risks arising from global market fluctuations, especially the financial tsunami in 2008, the Group has been effective in monitoring and controlling credit risks. During the Track Record Period, the Group has no bad debt provision for accounts receivable.

### **Experienced management**

The chairman and the executive Director, Mr. Yip, and the executive Directors, Chan Kai Fung and Kwok Sze Chi, have in-depth knowledge and over [20] years of experience in the stockbroking and financial services industry. With their extensive experience and market foresight, the Directors believe that the Group can adapt quickly to the buoyant market conditions and leverage on the Group’s competitive strengths to achieve sustainable growth and secure its market position. Please refer to the section headed “Directors, senior management and employees” of this document for further details of the experience of the executive Directors and the Group’s management team.

## STRATEGIES

### **Efficient and secure online trading platform**

Since the introduction of its securities online trading platform in January 2005 and futures and options online trading platform in October 2007, the Group has all along been focusing on developing its trading system capability and building its business and corporate image as one of the leading online trading service providers in Hong Kong with low brokerage commission rates. Online trading allows clients of the Group to conduct securities investment transactions over the internet. With the online trading business, clients can place, execute or cancel orders online. Clients’ trading instructions are sent directly to an automated channel of the HKEx for matching. Brokerage commission income is recognised on a trade date basis when the relevant transactions are executed.

There has been an overall increase in the Group’s client base since the adoption of this online trading business model. The Group’s online trading systems were developed by software development companies that allow its clients to trade online without the involvement of the Group’s dealers, and at the same time boosted the aggregate transaction amounts which is evidenced in the increase in turnover of the Group since the introduction of the securities online trading platform in January 2005, save for the financial year ended 31 March 2009, the decrease of which the Directors believe was attributable to

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## SUMMARY

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the global financial tsunami in 2008. Bright Smart Securities has been expanding its online trading capacity in order to further support the increasing transaction volume. As at the Latest Practicable Date, Bright Smart Securities held 14.25 throttle rates subscribed from the Stock Exchange, which translated to a capacity of processing 14.25 transaction orders per second.

During the six months from 1 October 2009 to 31 March 2010, the average utilisation rate of Bright Smart Securities’ securities trading capacity in terms of throttle usage was approximately 5.3% calculated based on approximately 12,270 orders a day placed by clients (which is the average number of orders placed per day during the period) divided by Bright Smart Securities’ trading capacity of approximately 230,850 orders a day (which is based on its 14.25 throttle rates and assuming 4.5 trading hours). Maximum utilisation of securities trading capacity usually occurs at peak hours when the trading session just starts. Depending on the business requirements of the Group in the future, the Directors confirmed that the Group is capable of increasing its throttle rates without substantial costs incurred. As at the Latest Practicable Date, the one-time charge by HKEx for each additional throttle rate was HK\$100,000.

Provision of electronic online trading is generally (including placing of an order, amending, canceling and execution of such order) regulated by the SFO. The Directors confirmed that the Group only provides electronic order routing facilities which does not fall into the definition of automated trading services (“ATS” as defined in Schedule 5 to the SFO). According to frequently asked questions posted by the SFC on 23 June 2004, the provision of order routing services would not generally be regarded as Type 7 (providing automated trading services) regulated activity and accordingly, the Group is not required to obtain any such license for its online securities trading business.

The Group recognises the importance of safeguarding its clients’ money and takes all reasonable steps to ensure that all transactions are secure. Orders placed online are processed automatically, including control procedures such as checking of client’s fund and securities on hand with no dealer’s handling are normally required. The Group only allows its licensed persons (as defined under the SFO) to handle follow up services in respect of online trading (e.g. when certain orders exceed limits of a particular account, or when some wrong orders are placed which are being “rejected” by the Group, etc). All the staff of the Group currently performing regulated activities, including staff members in the Dealing Department handling clients’ orders, are properly registered under the SFO as either Licensed Representatives or Responsible Officers.

As online trading contributed a [majority] portion of the Group’s total value of transactions, emphases are being placed on the security and the efficiency of the online trading system, both in terms of the Group’s investments in its IT infrastructure and also its human resources dedicated for the operation and maintenance of the computer system. The online trading platform of the Group is connected to the Stock Exchange to receive real-time market data for up-to-date portfolio valuation and to enable real-time risk management, including monitoring of abnormal transactions by the computer system and the Group’s personnel. Systems resources and usage are logged and monitored on a real-time basis to ensure adequate allocation of system resources for the Group’s online trading operation. Backup systems and additional connections to the Stock Exchange’s trading platform are installed, and stress test are performed on a regular basis in order to ensure proper functioning of the online trading system in case of individual device failure. Data encryption, firewall and antivirus measures, together with daily checking to prevent unauthorised system changes, are in place to ensure data security. One of the original developers of the Group’s securities trading system, Wong Wing Man, with over 10 years of

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## SUMMARY

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experience in trading system design and development, was also hired by the Group in March 2009 as the research and development manager to lead the Information Technology Department. Wong Wing Man, together with the other three staff members (as at 31 March 2010) in the Information Technology Department with an average of 7 years of working experience in information technology field, are responsible for ensuring smooth operation and maintenance of the computer system used by the Group. Two of the other three staff members mentioned above have completed tertiary education while the remaining staff member has received higher diploma in computer studies. Please refer to the section headed “Directors, senior management and employees” of this document for further details of the experience and qualification of Wong Wing Man.

According to the Group’s records, except for two system failures occurred in November 2007 and November 2008 as a result of substantial number of system login requests and a problem within a software program of the trading system respectively which were later rectified, as confirmed by the Directors, there were no other system breakdown or disruptions to the computer systems used by Group including but not limited to computer viruses, hackers, other disruptive actions by visitors or other internet users during the Track Record Period, which had a material adverse effect on the business and/or operations of the Group. The Directors confirmed that the two system failures as mentioned above caused temporary delays in the online trading system of the Group. The claims involved in the system failures in November 2007 and November 2008 amounted to approximately HK\$6,000 and HK\$4,000 respectively, which the Directors considered to be not material to the Group. The Directors advised that there were no further claims in relation to the above two system failures after November 2008 up to the Latest Practicable Date.

### **Low brokerage commission rate and margin interest rate**

The Group is one of the well-established securities brokerage houses with low brokerage commission rates and primarily focuses on providing online brokerage services in Hong Kong. The fact that most of the transactions of the Group’s clients are performed online enables the Group to achieve a higher profit margin with a larger trading volume. With a relative stable cost structure during the Track Record Period, the Group was able to charge its clients lower brokerage commission rates and margin interest rates. Following the introduction of its online brokerage service with reduced brokerage commission, the client base and market share of the Group in terms of securities trading have been [increasing] in general. Various schemes of brokerage commission rebate are also available for individual clients with high trading volume, where the effective brokerage commission rate charged can be as low as 0.01% for monthly transaction amounts (in monetary terms) above certain threshold.

### **Sales and marketing**

Since the abolishment of the minimum brokerage commission on 1 April 2003, the Group has been placing emphasis on its sales and marketing activities with a view to build up its market share and to strengthen its market position. These sales and marketing activities include holding investment seminars and placing advertisements through various media. The Group has also recruited Kwok Sze Chi as the marketing director of the Group, who appears in the investment seminars of the Group and through various media to offer commentaries on market trends as well as to suggest investment ideas. The Directors are of the view that the above sales and marketing activities are of great importance in building up relationships with the Group’s existing clients and at the same time attracting new clients.

## SUMMARY

### SUMMARY FINANCIAL AND OTHER INFORMATION

The following tables summarise the Company’s combined financial information during the Track Record Period. The summary of combined balance sheets as at 31 March 2008, 31 March 2009 and 31 March 2010, combined statements of comprehensive income and combined cash flow statements for the years ended 31 March 2008, 2009 and 2010 of the Group included in the following tables are derived from, and should be read in conjunction with, the Company’s audited combined financial information included in the Accountants’ Report set out in Appendix I to this document, which has been prepared in accordance with HKFRS. You should read the entire financial statements, including the notes thereto, included in Appendix I to this document for more details.

#### Selected Combined Statements of Comprehensive Income Data

|                                                                                                             | Year ended 31 March |                   |                   |
|-------------------------------------------------------------------------------------------------------------|---------------------|-------------------|-------------------|
|                                                                                                             | 2008                | 2009              | 2010              |
|                                                                                                             | HK\$                | HK\$              | HK\$              |
| <b>Turnover</b> . . . . .                                                                                   | 176,353,024         | 78,742,697        | 140,240,061       |
| <b>Other revenue</b> . . . . .                                                                              | 13,596,241          | 13,598,223        | 15,858,301        |
| <b>Other net (loss)/gain</b> . . . . .                                                                      | (451,822)           | (388,456)         | 98,558            |
|                                                                                                             | 189,497,443         | 91,952,464        | 156,196,920       |
| Staff costs . . . . .                                                                                       | (22,383,705)        | (22,618,027)      | (36,235,322)      |
| Depreciation . . . . .                                                                                      | (2,537,556)         | (3,506,427)       | (3,608,315)       |
| Other operating expenses . . . . .                                                                          | (32,733,432)        | (38,040,632)      | (35,743,667)      |
| <b>Profit from operations</b> . . . . .                                                                     | 131,842,750         | 27,787,378        | 80,609,616        |
| Finance costs . . . . .                                                                                     | (59,702,174)        | (2,775,718)       | (8,398,836)       |
| <b>Profit before taxation</b> . . . . .                                                                     | 72,140,576          | 25,011,660        | 72,210,780        |
| Income tax . . . . .                                                                                        | (12,056,535)        | (3,876,306)       | (11,926,761)      |
| <b>Net profit and total comprehensive income attributable to equity shareholders for the year</b> . . . . . | <u>60,084,041</u>   | <u>21,135,354</u> | <u>60,284,019</u> |

## SUMMARY

### Selected Combined Balance Sheets Data

|                                        | Year ended 31 March       |                           |                           |
|----------------------------------------|---------------------------|---------------------------|---------------------------|
|                                        | 2008                      | 2009                      | 2010                      |
|                                        | HK\$                      | HK\$                      | HK\$                      |
| <b>Assets</b>                          |                           |                           |                           |
| Non-current assets . . . . .           | 11,606,313                | 9,485,834                 | 12,238,793                |
| Current asset. . . . .                 | <u>417,334,916</u>        | <u>388,650,813</u>        | <u>930,085,718</u>        |
| Total assets . . . . .                 | <u><u>428,941,229</u></u> | <u><u>398,136,647</u></u> | <u><u>942,324,511</u></u> |
| <b>Equity and Liabilities</b>          |                           |                           |                           |
| Non-current liabilities . . . . .      | 107,175                   | 287,656                   | —                         |
| Current liabilities . . . . .          | <u>242,152,004</u>        | <u>190,031,587</u>        | <u>790,273,079</u>        |
| Total liabilities . . . . .            | <u>242,259,179</u>        | <u>190,319,243</u>        | <u>790,273,079</u>        |
| Total equity . . . . .                 | <u>186,682,050</u>        | <u>207,817,404</u>        | <u>152,051,432</u>        |
| Total equity and liabilities . . . . . | <u><u>428,941,229</u></u> | <u><u>398,136,647</u></u> | <u><u>942,324,511</u></u> |

### Selected Combined Cash Flow Statements Data

|                                                                  | Year ended 31 March |              |               |
|------------------------------------------------------------------|---------------------|--------------|---------------|
|                                                                  | 2008                | 2009         | 2010          |
|                                                                  | HK\$                | HK\$         | HK\$          |
| Net cash generated from/(used in) operating activities . . . . . | 2,563,434,106       | 48,569,478   | (428,838,183) |
| Net cash (used in)/generated from investing activities . . . . . | (2,292,862)         | 3,823,113    | (173,200)     |
| Net cash (used in)/generated from financing activities . . . . . | (2,493,702,174)     | (53,675,718) | 423,501,173   |
| Net increase/(decrease) in cash and cash equivalents. . . . .    | 67,439,070          | (1,283,127)  | (5,510,210)   |
| Cash and cash equivalents at the end of the year . . . . .       | 164,324,949         | 163,041,822  | 157,531,612   |

As further detailed in the sub-section headed “Volatility of the Hong Kong securities and futures market” and “The US and Singapore futures markets” under the section headed “Risk Factors” of this document, the Group’s key revenue streams are generated from brokerage operations and financing business, which are dependent on the performance of the financial markets of Hong Kong as a whole. The Hong Kong financial markets are, in turn, directly affected by, among others, the global and local political, economic and social environments. With the extension of the Group’s brokerage services to futures products traded on exchanges in the US and the Singapore Exchange Limited starting from

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## SUMMARY

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March 2009 and September 2009 respectively, the futures markets in the US and Singapore also affect the performance of the Group’s business. The global economy was seriously hampered by the financial tsunami which swept across the world from the second half of 2008 to the first half of 2009. The turnover of the Group decreased significantly by approximately 55.3% from approximately HK\$176.4 million for the year ended 31 March 2008 to approximately HK\$78.7 million for the year ended 31 March 2009. For each of the three years ended 31 March 2008, 2009 and 2010, the average transaction amount generated on a per customer basis of Bright Smart Securities were approximately HK\$31.4 million, HK\$16.1 million and HK\$15.1 million respectively. For each of the three years ended 31 March 2008, 2009 and 2010, the average brokerage commission generated on a per customer basis of the Group were approximately HK\$13,000, HK\$7,000 and HK\$8,000 respectively. Although the global economy has shown signs of improvement since the first quarter of 2009 following the massive easing policies adopted by governments around the world, the Group’s businesses may still be adversely affected by external factors including the volatility of the financial markets as illustrated above, which are beyond the control of the Group.

### CAPITAL RESOURCES AND CASH MANAGEMENT

The Group’s cash flow movement during the Track Record Period was mainly affected by the Group’s operating performance, purchase of fixed assets, interest income received from financial institutions, financings from banks and a related company, and repayments of bank loans and amount due to a related company.

The Group’s primary objective when managing capital is to safeguard the Group’s ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost. In addition, certain subsidiaries of the Group licensed by the SFC are obliged to meet the regulatory liquid capital requirements under the FRR at all times.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and make adjustments to the capital structure in light of changes in economic conditions. For the licensed subsidiaries, the Group ensures each of them maintains a liquid capital level adequate to support the level of activities with sufficient buffer to accommodate for increases in liquidity requirements arising from potential increases in the level of business activities. During the Track Record Period, all the licensed subsidiaries complied with the liquid capital requirements under the FRR.

Individual operating entities within the Group are responsible for their own cash management, including the raising of loans to cover expected cash demands, and to ensure compliance with the FRR. The Group’s policy is to regularly monitor its liquidity requirement and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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## SUMMARY

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### DIVIDENDS

The declaration of dividends is subject to the discretion of the Directors and the amounts of dividends actually declared and paid will depend upon:

- general business conditions;
- results of operations;
- capital requirements and operating cash flow considerations;
- interests of the Shareholders; and
- any other factors that the Board may deem relevant.

The Board has absolute discretion in deciding whether to declare any dividend for any year and how much dividend to declare if it decides to declare a dividend. Any final dividend for a fiscal year will be subject to the Shareholders’ approval.

The Company’s past dividend payment history is not, and should not be taken as, an indication of its potential future practice on dividend payments. There is no assurance that dividends of any amount will be declared or distributed in any year.

No dividend was paid or declared by the Company since incorporation. Pursuant to the resolutions passed at the respective board of directors’ meetings of Bright Smart Securities and Bright Smart Futures on 31 March 2010, dividends of HK\$116,050,000 and HK\$20,000,000 were declared to respective shareholders of Bright Smart Securities and Bright Smart Futures as at 31 March 2010 and will be settled before [●].

The amount of final dividends actually distributed to the Shareholders will depend upon the earnings and financial position, operating requirements, capital requirements and any other conditions that the Directors may deem relevant and will be subject to the approval of the Shareholders.

### STRATEGIC INVESTMENTS FROM BOCOM INTERNATIONAL HOLDINGS

On 25 November 2009, Mr. Yip and BOCOM International Holdings entered into the Call Option Agreement whereby Mr. Yip granted the Option to BOCOM International Holdings, representing the right to require Mr. Yip to sell all (but not part only) of the Option Shares to BOCOM International Holdings at the Exercise Price at any time during the Option Period. The consideration of the Option paid by BOCOM International Holdings to Mr. Yip was HK\$100. Pursuant to the Call Option Agreement, on 2 July 2010, (a) BOCOM International Holdings exercised the Option to require Mr. Yip to transfer the Options Shares to BOCOM International Holdings; (b) Mr. Yip procured New Charming to transfer 50,000,000 Shares from New Charming to BOCOM International Holdings for a consideration of HK\$11,403,857; and (c) BOCOM International Holdings fully settled the consideration.

BOCOM International Holdings is in the opinion that the Group is one of the well-established brokerage houses that primarily focuses on providing online brokerage services. BOCOM International Holdings as a strategic investor recognises this future potential and decided to complete this investment by exercising the Option.

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## SUMMARY

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Based on the total Shares to be held by BOCOM International Holdings immediately following completion of the [●] of 50,000,000 Shares, the investment cost per Share for BOCOM International Holdings amounted to approximately HK\$0.23, which represents a [●].

The 50,000,000 Option Shares represent 10% of the total issue share capital of the Company upon Completion and approximately 7.5% of the total issue share capital of the Company immediately after the [●] (assuming the [●] is not exercised). BOCOM International Holdings undertakes to Mr. Yip and the Company that it will not sell or transfer or otherwise dispose of, or create any encumbrances on, its legal or beneficial interest in any of the Option Shares during the period from completion of the sale and purchase of the Option Shares up to and including the date falling six months after the [●].

Details of the Call Option Agreement and the conversion are set out in the section headed “History, Reorganisation and Group Structure” of this document. When the Call Option Agreement was signed on 25 November 2009, BOCOM International Holdings and Mr. Yip agreed that the exercise price under the Call Option Agreement should be determined by reference to the equity attributable to equity holders of the Company as at 31 March 2010. BOCOM International Holdings assumed genuine investment risk under the Call Option Agreement upon payment of the exercise price of the Option Shares to Mr. Yip, the ultimate beneficial owner of New Charming on 2 July 2010, at which point of time the Company was not listed and the Option Shares were not tradable on the Stock Exchange. Hence the Exercise Price has a significant discount when compared [●], which is determined based on [●].

[●]. [●] is a wholly-owned subsidiary of BOCOM International Holdings, which is a wholly-owned subsidiary of Bank of Communications Co., Ltd. Given the investment in the Company by BOCOM International Holdings, [●] does not satisfy the independence criteria applicable to [●] set out in [●] of the [●].

Bank of Communications Co., Ltd. Hong Kong Branch, being a branch of Bank of Communications Co., Ltd., provides general banking facilities to Bright Smart Securities for the sole purpose of financing the IPO financing business of Bright Smart Securities pursuant to a master staging facility letter (stockbroker/securities margin financier) dated 10 September 2008. [The maximum outstanding loan amount due from Bright Smart Securities to Bank of Communications Co., Ltd. Hong Kong Branch from [●] up to 31 July 2010 was approximately HK\$[2,273.3] million, and there was no outstanding loan amount due from Bright Smart Securities to Bank of Communications Co., Ltd. Hong Kong Branch as at 31 July 2010.]

Bank of Communications Co., Ltd. Hong Kong Branch also provides to [China Finance] general banking facilities in a maximum amount of approximately HK\$[250] million, and a revolving loan in a maximum amount of approximately HK\$[148] million for the purpose of shareholder’s capital injection or shareholder’s loan of Bright Smart Securities during which period Bright Smart Securities is conducting IPO financing. [The maximum outstanding loan amount due from [China Finance] to Bank of Communications Co., Ltd. Hong Kong Branch from [●] up to 31 July 2010 was approximately HK\$[443.9] million.

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## SUMMARY

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### RISK FACTORS

There are certain risks relating to an investment in the Shares. These can be categorised into: (i) risks relating to the business and operations of the Group; (ii) risks relating to the industry; (iii) risks relating to Hong Kong; (iv) risks relating to the [●] and (v) risks relating to this document. A detailed discussion of the risks factors is set forth in the section headed “Risk Factors”.

#### **Risks relating to the business and operations of the Group**

- Risk of non-compliance of rules and regulations
- Volatility of the Hong Kong securities and futures market
- The US and Singapore futures markets
- Fluctuations in interest rates
- Credit and settlement risks
- Risk of financing business
- Reliance on brokerage commission and interest income from financing business
- Competitive pressure
- Risk of error trading
- Risk on branches network expansion
- Risk of operational and trading system failure
- Reliance on key management personnel
- Foreign exchange exposure
- Collection of deposits placed with brokerage firms
- Dividend policy

#### **Risks relating to the industry**

- Competition from internet securities trading
- High level of liquidity required
- Grant of new trading rights

#### **Risks relating to Hong Kong**

- Economic and political considerations

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## SUMMARY

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### **Risk relating to this document**

- Forward-looking statements

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## DEFINITIONS

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|-----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Active Trading Clients”                | clients of the Group whose accounts have recorded at least one trading activity in the past twelve months, and accordingly “Active Securities Trading Clients” means clients of Bright Smart Securities whose accounts with the Group have recorded at least one securities trading activity in the past twelve months, “Active Futures and Options Trading Clients” means clients of Bright Smart Futures, whose accounts with the Group have recorded at least one transaction for open and/or close position of futures or options trading contracts in the past twelve months, and “Active Margin Clients” means clients of the Group whose margin securities trading accounts with the Group have recorded at least one transaction for purchase or sale of securities in the past twelve months |
| “Articles of Association” or “Articles” | the articles of association of the Company approved and adopted on 4 August 2010, as amended, supplemented or otherwise modified from time to time, a summary of which is set out in Appendix IV to this document                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| “Associates”                            | has the meaning ascribed thereto under the Listing Rules                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| “Board”                                 | the board of Directors                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| “BOCOM International Holdings”          | BOCOM International Holdings Company Limited, a wholly-owned subsidiary of Bank of Communications Co., Ltd.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| “Bright Smart Futures”                  | Bright Smart Futures & Commodities Company Limited, a company incorporated in Hong Kong with limited liability on 14 November 1995, an indirect wholly-owned subsidiary of the Company following completion of the Reorganisation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| “Bright Smart Investment”               | Bright Smart Investment Holdings Limited, a company incorporated in the BVI with limited liabilities on 22 October 2009, a direct wholly-owned subsidiary of the Company following completion of the Reorganisation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| “Bright Smart Securities”               | Bright Smart Securities International (H.K.) Limited (formerly known as “Super International Company Limited”), a company incorporated in Hong Kong with limited liability on 10 August 1998, an indirect wholly-owned subsidiary of the Company following completion of the Reorganisation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| “Business Day”                          | any day (excluding Saturday, Sunday or public holidays) on which banks in Hong Kong are generally open for business                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| “BVI”                                   | British Virgin Islands                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |

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## DEFINITIONS

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|----------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Call Option Agreement”                      | the call option agreement dated 25 November 2009 as supplemented and amended by four side letters dated 29 March 2010, 30 April 2010, 28 May 2010 and 30 June 2010 respectively together with a supplemental deed dated 2 July 2010 entered into between Mr. Yip and BOCOM International Holdings, the principal terms of which are summarised under the section headed “History, Reorganisation and Group Structure” of this document |
| “CCASS”                                      | the Central Clearing and Settlement System established and operated by HKSCC                                                                                                                                                                                                                                                                                                                                                           |
| “China” or “the PRC”                         | the People’s Republic of China and, except where the context otherwise requires and only for the purpose of this document, references in this document to China or the PRC exclude Hong Kong, Macao and Taiwan                                                                                                                                                                                                                         |
| “China Finance”                              | China Finance (Worldwide) Limited (formerly known as “Bright Smart Finance International (China) Limited), a company incorporated in Hong Kong with limited liability on 22 September 2008, a company wholly-owned by Mr. Yip                                                                                                                                                                                                          |
| “Chinese Government” or “the PRC Government” | the central government of the PRC, including all political and governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof                                                                                                                                                                                                                               |
| “Code of Conduct”                            | the Code of Conduct for Persons Licensed by or Registered with the SFC                                                                                                                                                                                                                                                                                                                                                                 |
| “Companies Law”                              | the Companies Law (2009 Revision), as amended, supplemented or otherwise modified from time to time                                                                                                                                                                                                                                                                                                                                    |
| “Companies Ordinance”                        | the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time                                                                                                                                                                                                                                                                                                        |
| “Company”                                    | Bright Smart Securities & Commodities Group Limited, incorporated as an exempted company with limited liability in the Cayman Islands on 4 August 2009 under the Companies Law                                                                                                                                                                                                                                                         |
| “connected persons”                          | has the meaning ascribed thereto under the Listing Rules                                                                                                                                                                                                                                                                                                                                                                               |
| “Controlling Shareholder(s)”                 | has the meaning ascribed thereto in the Listing Rules and unless the context requires otherwise refers to New Charming and Mr. Yip                                                                                                                                                                                                                                                                                                     |
| “Deed of Non-competition”                    | a deed of non-competition dated [●], given by the Controlling Shareholders in favor of the Company                                                                                                                                                                                                                                                                                                                                     |
| “Director(s)”                                | the director(s) of the Company as of the date of this document                                                                                                                                                                                                                                                                                                                                                                         |

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## DEFINITIONS

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|-----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Everhero”                        | Everhero International Limited, a company incorporated in the BVI with limited liabilities on 1 October 2004, a company wholly-owned by Mr. Yip                                                                                                                                                                                                                                                                                          |
| “Exercise Price”                  | the exercise price under the Call Option Agreement, being the amount in HK\$ equivalent to 7.5% of the equity attributable to equity holders of the Company as at 31 March 2010 as shown in the Hong Kong Accounts or HK\$20,000,000, whichever is the lower                                                                                                                                                                             |
| “Fortune Crown”                   | Fortune Crown Nominees Limited (formerly known as “Fortune Crown Enterprises Limited”), a company incorporated in Hong Kong with limited liability on 11 October 2004, a company owned as to 99.99% by Mr. Yip and 0.01% by Everhero                                                                                                                                                                                                     |
| “FRR”                             | Securities and Futures (Financial Resources) Rules (Chapter 571N of the Laws of Hong Kong)                                                                                                                                                                                                                                                                                                                                               |
| “Futures Exchange”                | Hong Kong Futures Exchange Limited                                                                                                                                                                                                                                                                                                                                                                                                       |
| “Futures Exchange Participant(s)” | a licensed corporation to carry on Type 2 (dealing in futures contracts) regulated activity under the SFO who, in accordance with the rules of the Futures Exchange, may trade on or through the Futures Exchange and whose name is entered in a list, register or roll kept by the Futures Exchange as a person who may trade on or through the Futures Exchange, and “Futures Exchange Participantship” shall be construed accordingly |
| “Futures Exchange Trading Right”  | a right to be eligible to trade on or through the Futures Exchange and entered as such a right in a list, register or roll kept by the Futures Exchange                                                                                                                                                                                                                                                                                  |
| “GDP”                             | gross domestic product (all references to GDP growth rates are to real as opposed to nominal rates of GDP growth)                                                                                                                                                                                                                                                                                                                        |
| “GEM”                             | the Growth Enterprise Market of the Stock Exchange                                                                                                                                                                                                                                                                                                                                                                                       |
| “Glow Dragon”                     | Glow Dragon Limited, a company incorporated in Hong Kong with limited liability on 21 January 2010, an indirect wholly-owned subsidiary of the Company following completion of the Reorganisation                                                                                                                                                                                                                                        |
| “Group”                           | the Company and its subsidiaries or, where the context so requires in respect of period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors                                                                                                                                 |
| “HIBOR”                           | Hong Kong Interbank Offer Rate                                                                                                                                                                                                                                                                                                                                                                                                           |

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## DEFINITIONS

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|-----------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “HK\$” or “Hong Kong dollars” or “HK dollars” | Hong Kong dollars, the lawful currency of Hong Kong                                                                                                                                                                                                                                           |
| “HKCC”                                        | HKFE Clearing Corporation Limited, a wholly-owned subsidiary of HKEx                                                                                                                                                                                                                          |
| “HKEx”                                        | Hong Kong Exchanges and Clearing Limited                                                                                                                                                                                                                                                      |
| “HKFRS”                                       | Hong Kong Financial Reporting Standards promulgated by the Hong Kong Institute of Certified Public Accountants, which includes the Hong Kong Accounting Standards and their interpretations                                                                                                   |
| “HKSCC”                                       | Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of HKEx                                                                                                                                                                                                              |
| “Hong Kong Accounts”                          | the accounts referred to in the Call Option Agreement, being the Accountants’ Report as set out in Appendix I to this document, or, if the same is not available by 30 April 2010 and if so agreed by Mr. Yip and BOCOM International Holdings, an advanced draft of such Accountants’ Report |
| “Hong Kong”                                   | the Hong Kong Special Administrative Region of the PRC                                                                                                                                                                                                                                        |
| “HSI”                                         | Hang Seng Index                                                                                                                                                                                                                                                                               |
| “Huge Dynasty”                                | Huge Dynasty Limited, a company incorporated in Hong Kong with limited liability on 13 January 2010, an indirect wholly-owned subsidiary of the Company following completion of the Reorganisation                                                                                            |
| “IPO(s)”                                      | initial public offering(s)                                                                                                                                                                                                                                                                    |
| “Latest Practicable Date”                     | [●], being the latest practicable date prior to the printing of this document for ascertaining certain information contained in this document                                                                                                                                                 |
| “Laws”                                        | all laws, rules, statutes, ordinances, regulations, guidelines, opinions, notices, circulars, orders, judgments, decrees or rulings of any governmental authority and “Law” includes any one of them                                                                                          |
| “Licensed Representative(s)”                  | an individual who is granted a licence under section 120(1) of the SFO to carry on one or more than one regulated activity for a licensed corporation to which he/she is accredited                                                                                                           |
| “Listing Rules”                               | the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time                                                                                                                                                         |

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## DEFINITIONS

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|---------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Macao”                                           | the Macao Special Administrative Region of the PRC                                                                                                                                                                                                                     |
| “Madam Hung”                                      | Ms. Hung Seu Ying, the mother of Mr. Yip and a director of Bright Smart Securities                                                                                                                                                                                     |
| “Main Board”                                      | the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the GEM                                                                                                                        |
| “Manet Good”                                      | Manet Good Company Limited, a company incorporated in Hong Kong with limited liability on 3 January 1997, a company owned as to 99.99% by Mr. Yip and 0.01% by Fortune Crown                                                                                           |
| “Memorandum” or<br>“Memorandum of<br>Association” | the memorandum of association of the Company, conditionally approved and adopted on [4 August 2010], as supplemented, amended or otherwise modified from time to time                                                                                                  |
| “Merit Act”                                       | Merit Act Limited, a company incorporated in Hong Kong with limited liability on 3 November 2009, an indirect wholly-owned subsidiary of the Company following completion of the Reorganisation                                                                        |
| “Mr. Yip”                                         | Mr. Yip Mow Lum, the founder and chairman of the Company, an executive Director, the sole shareholder of New Charming, and the son of Madam Hung                                                                                                                       |
| “New Charming”                                    | New Charming Holdings Limited, a company incorporated in the BVI with limited liability on 6 July 2009, the controlling shareholder of the Company and directly wholly-owned by Mr. Yip                                                                                |
| “Non-trading Participants”                        | has the meaning ascribed thereto in the fact books published by the Stock Exchange                                                                                                                                                                                     |
| “Option”                                          | the right granted by Mr. Yip to BOCOM International Holdings pursuant to the Call Option Agreement, to require Mr. Yip to sell all (but not part only) of the Option Shares to BOCOM International Holdings at the Exercise Price at any time during the Option Period |

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## DEFINITIONS

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| “Option Period”          | the option period under the Call Option Agreement, being the period commencing from (and inclusive of) the date when the Hong Kong Accounts for computation of the Exercise Price is available until (a) the earlier of (i) the day (inclusive of that day) immediately before 4 clear Business Days before the expected hearing date on the application for the [●] with the Stock Exchange; or (ii) [●] (and any of its associated corporations whose appointment shall be subject to the prior written consent of Mr. Yip) ceases to act as a [●] to the application for the [●]; or (iii) the date falling on the expiration of 18 months after the date of the Call Option Agreement; or (iv) completion of the sale and purchase of the Option Shares in accordance with the Call Option Agreement; or (b) such later date as may be agreed in writing by both Mr. Yip and BOCOM International Holdings |
| “Option Shares”          | such number of Shares representing 10% of the total issued share capital of the Company upon completion of the sale and purchase of the Option Shares in accordance with the Call Option Agreement, and representing approximately 7.5% of the total issued share capital of the Company immediately after the [●]                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| “Perfection Corporation” | Perfection Corporation Limited (formerly known as “Bright Smart Finance International (H.K.) Limited”), a company incorporated in Hong Kong with limited liability on 3 January 1997, a company indirectly wholly-owned by Mr. Yip                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| “Regulation S”           | Regulation S under the United States Securities Act                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| “Reorganisation”         | the reorganisation arrangements the Group has undergone in preparation for the [●] of the Shares on the [●] which are more particularly described in the sections headed “History, reorganisation and Group structure” and “Statutory and general information — Further information about the Group — Group reorganisation” in Appendix V to this document                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| “Responsible Officer(s)” | a Licensed Representative who is also approved as a responsible officer under section 126 of the SFO to supervise one or more than one regulated activity of the licensed corporation to which he/she is accredited                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| “retail client(s)”       | [client(s) of the Group who are not (i) licensed by or registered with the SFC under the SFO; or (ii) corporation(s)]                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| “Reviewing Firm”         | an independent consultant firm, Union Alpha C.P.A. Limited, Certified Public Accountants (Practising) of 19/F., No. 3 Lockhart Road, Wanchai, Hong Kong, to perform review of certain internal control procedures of Bright Smart Securities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

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## DEFINITIONS

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| “RMB” or “Renminbi”             | Renminbi, the lawful currency of the PRC                                                                                                                                                                                                                                                                                                                                                                                |
| “Securities Ordinance”          | the repealed Securities Ordinance (Chapter 333 of the laws of Hong Kong)                                                                                                                                                                                                                                                                                                                                                |
| “SEOCH”                         | The SEHK Option Clearing House Limited, a wholly-owned subsidiary of HKEx                                                                                                                                                                                                                                                                                                                                               |
| “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                                                                                                                                                                                                                                                                           |
| “Shareholder(s)”                | holder(s) of the Shares                                                                                                                                                                                                                                                                                                                                                                                                 |
| “Share(s)”                      | ordinary share(s), with nominal value of HK\$0.30 each, in the share capital of the Company                                                                                                                                                                                                                                                                                                                             |
| “Share Option Scheme”           | the share option scheme conditionally adopted by the Company pursuant to a resolution passed by the Shareholders on 4 August 2010 as described in the section headed “Statutory and General Information — Other Information — 17. Share Option Scheme” in Appendix V to this document                                                                                                                                   |
| “Stock Exchange”                | The Stock Exchange of Hong Kong Limited                                                                                                                                                                                                                                                                                                                                                                                 |
| “Stock Exchange Participant(s)” | a licensed corporation to carry on Type 1 (dealing in securities) regulated activity under the SFO who, in accordance with the rules of the Stock Exchange, may trade on or through the Stock Exchange and whose name is entered in a list, register or roll kept by the Stock Exchange as a person who may trade on or through the Stock Exchange, and “Stock Exchange Participantship” shall be construed accordingly |
| “Stock Exchange Trading Right”  | a right to be eligible to trade on or through the Stock Exchange and entered as such a right in a list, register or roll kept by the Stock Exchange                                                                                                                                                                                                                                                                     |
| “T + 2”                         | two trading days from the transaction day                                                                                                                                                                                                                                                                                                                                                                               |
| “Takeovers Code”                | The Codes on Takeovers and Mergers and Share Repurchases                                                                                                                                                                                                                                                                                                                                                                |
| “Track Record Period”           | the period comprising the three financial years ended 31 March 2010                                                                                                                                                                                                                                                                                                                                                     |
| “Trading Participants”          | has the meaning ascribed thereto in the fact books published by the Stock Exchange                                                                                                                                                                                                                                                                                                                                      |

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## DEFINITIONS

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|--------------------------|------------------------------------------------------------------------------------------------------------|
| “United States” or “US”  | the United States of America                                                                               |
| “U.S. dollars” or “US\$” | United States dollars, the lawful currency of the United States                                            |
| “U.S. Securities Act”    | the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder |
| “%”                      | per cent.                                                                                                  |

*For the purpose of this document, unless otherwise specified, conversion of US\$ and RMB into Hong Kong dollars are based on the approximated exchange rates of US\$1.00 to HK\$[●] and HK\$1.00 to RMB[●], respectively, for illustrative purpose only. No representation is made that any amount in HK\$, US\$ or RMB could have been or could be converted at the above rates or any other rates or at all.*

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

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## RISK FACTORS

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

#### Risk of non-compliance of rules and regulations

The Hong Kong financial services industry in which the Group operates is highly regulated. There are changes in rules and regulations from time to time in relation to the regulatory regime for the financial services industry, including but not limited to the SFO, the Companies Ordinance, the Listing Rules or the rules governing the listing of securities on the GEM, the FRR and the Takeovers Code. Any such changes might result in an increase in the Group’s cost of compliance, or might require the Group to restrict its business activities. In case the Group fails to comply with applicable rules and regulations from time to time, it might result in fines, restrictions on the Group’s activities or even suspension or revocation of some or all of the Group’s business licenses. Accordingly, the businesses and financial performance of the Group would be materially and adversely affected.

Furthermore, some of the members of the Group are or may be required to be, and to remain, licensed with the relevant regulatory authorities including without limitation, as licensed corporations under the SFO. In this respect, members of the Group have to ensure continuous compliance with all applicable laws, regulations and codes, and to satisfy the SFC, the Stock Exchange and/or other regulatory authorities that they remain fit and proper to be licensed. If there is any change to or tightening of the relevant laws, rules and regulations, it may adversely affect the Group’s operations and business.

As set out in detail under the sub-section headed “Disciplinary Actions” under the section headed “Business” in this document, there were disciplinary actions taken by the SFC against (i) Bright Smart Securities and one of the Controlling Shareholders regarding misleading statements in advertisements; and (ii) one of Bright Smart Securities’ former Responsible Officers regarding unlicensed dealing, resulting in total fines of approximately HK\$235,000. Companies engaged in regulated activities (as defined in the SFO), such as Bright Smart Securities and Bright Smart Futures, may be subject to regulatory investigations from time to time. In the event that the results of the investigations are proved to be of serious misconduct, the SFC could take disciplinary actions including revocation or suspension of licences, public or private reprimand or imposition of pecuniary penalties against the Group’s two major operating subsidiaries and/or their Responsible Officers/Licensed Representatives. Any of such disciplinary actions taken against the Group’s two major operating subsidiaries and/or their Responsible Officers/Licensed Representatives and/or their directors or persons concerned and/or involved in their management could have an adverse impact on the Group’s businesses, operations, financial position and performance. [As at the Latest Practicable Date, as far as the Directors were aware, there was no ongoing investigation against any member of the Group or any of its Responsible Officers/Licensed Representatives and/or their directors or persons concerned and/or involved in their management.] There is no assurance that there will not be any investigations taken against any member of the Group or any of its Responsible Officers/Licensed Representatives and/or their directors or persons concerned and/or involved in their management in future.

Apart from the above, the internal control systems of the Group had certain weaknesses or required further enhancements, as revealed in, among others, the past regulatory visits by the SFC, and the two reports issued by the Reviewing Firm on the review of certain internal control procedures of Bright Smart Securities undertaken in 2008 and 2009. Please refer to the sub-section headed “Identified historical internal control weaknesses and subsequent rectifications” under the section headed

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## RISK FACTORS

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“Business” in this document for further details. Although the Group has significantly enhanced its system in response to, among others, the weaknesses identified by the SFC and the Reviewing Firm in its two reports issued on 24 October 2008 and 23 March 2009 respectively, the enhanced control measures have a short period of implementation. Moreover, internal control, no matter how well designed and operated, can provide only reasonable assurance of achieving an entity’s control objective. The likelihood of achievement is affected by limitations inherent to internal control. These include the realities that human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human failures such as simple errors or mistakes. Although great emphasis was placed by the Group on internal control measures to detect and deter employee’s malpractices and misconducts, there is no assurance that all such measures are effective. Any malpractices or misconduct by the Group’s employee may adversely affect the reputation of the Group. If the internal control systems of the Group fail to be consistently and effectively implemented, there would be adverse impact on the Group’s businesses and/or financial performance.

### **Volatility of the Hong Kong securities and futures market**

The Group’s key revenue streams are generated from brokerage operations and financing business, which are dependent upon the performance of the financial markets of Hong Kong as a whole. For each of the three years ended 31 March 2008, 2009 and 2010, brokerage commission income derived from the Group’s brokerage business accounted for approximately 59.0%, 92.1% and 81.7% of the Group’s total turnover respectively, while interest income derived from the Group’s financing business, including margin financing and IPO financing, accounted for approximately 41.0%, 7.9% and 18.3% respectively of the Group’s turnover for the corresponding years.

The Hong Kong financial markets are directly affected by, among others, the global and local political, economic and social environments. Historically, global and local financial markets have fluctuated considerably over time. Any sudden downturn in these financial markets may adversely affect the market sentiment in general, and hence the trading volume and brokerage commission income/ interest income of the Group, which would in turn adversely affect the financial performance of the Group.

The global economy was seriously hampered by the financial tsunami which swept across the world from the second half of 2008 to the first half of 2009. The deepened concerns over the US economy after the housing mortgage meltdown and sub-prime crisis had adversely affected the investment sentiment with banks tightening credit lines in both local and global markets. A global sell-off and overall shrinkage in trading volume resulted amid uncertainties in the financial markets arising from the credit crunch as well as investors becoming more pessimistic and prudent. The turnover of the Group decreased significantly by approximately 55.3% from approximately HK\$176.4 million for the year ended 31 March 2008 to approximately HK\$78.7 million for the year ended 31 March 2009. For each of the three years ended 31 March 2008, 2009 and 2010, the average transaction amount generated on a per customer basis of Bright Smart Securities were approximately HK\$31.4 million, HK\$16.1 million and HK\$15.1 million respectively. For each of the three years ended 31 March 2008, 2009 and 2010, the average brokerage commission generated on a per customer basis of the Group were approximately HK\$13,000, HK\$7,000 and HK\$8,000 respectively. Although the global economy has shown signs of improvement since the first quarter of 2009 following the massive easing policies adopted by governments around the world, the Group’s businesses may still be adversely affected by external factors including the volatility of the financial markets as illustrated above, which are beyond

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## RISK FACTORS

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the control of the Group. There is no assurance that the Group will be able to maintain its historical results in times of difficult economic conditions or unstable political environments. Historical profit levels of the Group should not be relied heavily on as an indication of its future financial performance.

The Directors are of the view that turnover of the Group is dependent on the performance of the financial markets. On the other hand, the operating costs of the Group (e.g. staff costs, depreciation and information technology related expenses) are relatively less correlated with the financial markets due to the fact that the trading business of the Group is mainly operated on an online basis which to a large extent is highly automated. As a result, the profit margins of the Group would be highly sensitive to any adverse change in the financial markets.

### **The US and Singapore futures markets**

The Group extended its brokerage services to futures products traded on exchanges in the US and the Singapore Exchange Limited starting from March 2009 and September 2009 respectively, and the futures markets in the US and Singapore also affect the performance of the Group’s business. Similar to stock market and other financial markets, the futures market also encounters risk factors including market risk, credit risk and operational risk. Investors are reminded to observe market risk such as the financial tsunami. Investors should also be careful in assessing the future performances of the Group in light of the possible fluctuations of the Group’s results which are subject to these market risks.

### **Fluctuations in interest rates**

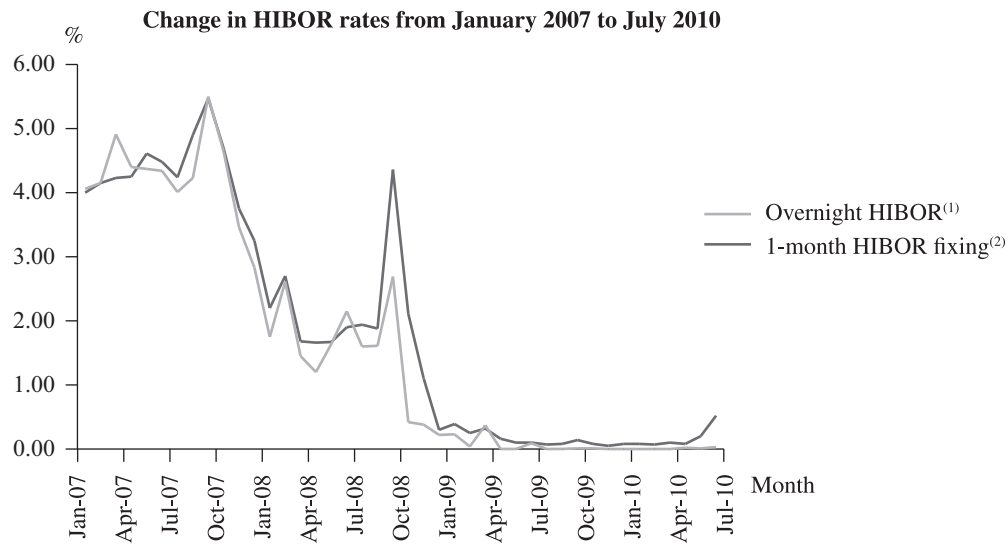
The Group’s financial condition and its financial results may be adversely affected by any fluctuations of interest rates or any changes in the interest rate environment. As the Group charges interest on its margin clients on the basis of its cost of funding plus a markup, any increase in interest rates may increase the Group’s finance cost and may reduce the Group’s interest spread for its loan portfolio, which may adversely affect the Group’s financial results. The effective interest rates of the Group’s borrowings as at 31 March 2008, 2009 and 2010 were 4.50%, 3.60% and 1.05% respectively. Finance costs of the Group for the years ended 31 March 2008, 2009 and 2010 were approximately HK\$59.7 million, HK\$2.8 million and HK\$8.4 million respectively.

Fluctuations of interest rates may also affect the financial market in general, such as the market sentiment in the stock market. In particular, increase or decrease in interest rates may change the market sentiment in respect of the future economic and financial environment, and may have an adverse impact on the financial markets as well as the business of the Group.

The Directors believe that the decrease in interest rates is the main reason for the low financing cost of the Group for the year ended 31 March 2010 despite the increase in bank borrowings of the Group during the same period. The actual interest rate applicable to the Group’s bank loans in future depends on the future change in interest rates.

[The changes in HIBOR rates during the Track Record Period are shown in the chart below:

RISK FACTORS



Source: Hong Kong Monetary Authority

Notes:

- (1) Overnight HIBOR is the rate of interest offered on Hong Kong dollar loans by banks in the interbank market for overnight.
- (2) 1-month HIBOR fixing rates are Hong Kong dollar interest settlement rates which are fixed by reference to market rates for Hong Kong dollar deposits with maturity of 1 month in the Hong Kong interbank market. These fixings are made at 11.00 a.m. each business day (excluding Saturdays) on the basis of quotations provided by 20 banks designated by The Hong Kong Association of Banks as reference banks. In calculating the interest settlement rate, the middle 14 of the quotations from the reference banks will be averaged and the result rounded up, if necessary, to the fifth decimal place.]

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## RISK FACTORS

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### **Credit and settlement risks**

Cash clients of Bright Smart Securities are required to settle their securities transactions within T+2. If a client (either being a cash client or margin client) fails to settle the transaction within T+2, Bright Smart Securities is required to settle the same on the client's behalf with [●] with its own funds. For cash client who fails to settle the transaction within T+2, Bright Smart Securities charges an overdue interest at a higher interest rate than normal financing interest rates charged by the Group. As at 31 March 2008, 31 March 2009 and 31 March 2010, accounts receivable from the Group's cash clients, all aged within 30 days, amounted to approximately HK\$10.3 million, HK\$30.2 million and HK\$55.4 million respectively. Please refer to the sub-section headed “Description of selected balance sheet items” under the “Financial information” section for details of such increase. Please also refer to the sub-section headed “Current internal control system” under the “Business” section for details of the measures taken to mitigate credit risk of the Group. There is a risk of default in payment by cash clients.

During the Track Record Period, no bad debt provision for margin loans or amounts due from cash clients was made by the Group.

There is a minimum margin deposit for opening of each futures and option contract as required by the Stock Exchange and the Futures Exchange. Clients of the Group are required to maintain such minimum margin deposit with the Group at all times as determined by the Futures Exchange and the Stock Exchange. Although the Group is entitled to close out the futures and/or option contract when a client is unable to meet his/her margin call, in the event that the client's margin deposit with the Group is unable to cover the loss arising from closing out of the futures and/or option contract, the Group would be exposed to the risk of not being able to recover such shortfall from the clients, particularly in times of a volatile market.

### **Risk of financing business**

The Group normally obtains liquid securities and/or cash deposits as collateral for providing margin financing to its clients.

Margin loan provided to a client is required to be maintained within the margin value of his pledged securities, which means the aggregate market value of his pledged securities after discounts. It is the Group's policy that once the margin value falls below the outstanding amount of the loan as a result of market downturn or adverse movement in the prices of the pledged securities, the Group will make a margin call requesting the client to deposit additional funds, sell securities or pledge additional securities to top up their margin value.

In the event that a client is unable to meet a margin call, the Group is entitled to dispose of the pledged securities and use the sale proceeds thereof towards repayment of the loan. However, there is a risk that the amount recovered from the disposal of the pledged securities may fall short of the outstanding amount of the loan. The Group would suffer a loss if it fails to recover the shortfall from its clients. The Directors confirmed that the Group did not suffer any loss arising from such kind of shortfall during the Track Record Period. There was no bad debt provision for margin loans or amounts due from cash clients made by the Group during the Track Record Period.

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## RISK FACTORS

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The Group also provides IPO financing service to clients. There will also be adverse impact on the Group’s businesses and financial performance if the Group does not have sufficient liquid capital to meet client’s demand or the regulatory requirement, or any of the borrowers fails to duly repay the amount owed to the Group.

During the Track Record Period, Bright Smart Securities had entered into certain subordinated loan agreements with Manet Good, pursuant to which Manet Good agreed to grant revolving credit facilities to Bright Smart Securities which were unsecured and borne no interest. The loans have been used for the IPO financing business of the Group, [and will be terminated upon [●]]. The level of IPO financing the Group may grant to its clients may be affected by the uplifting of the subordinated loans upon [●]. Further detail is set out in the sub-section headed “Financial independence” under the section headed “Relationship with the Controlling Shareholder”.

As at 31 March 2008, 31 March 2009 and 31 March 2010, the Group’s loans to margin clients amounted to approximately HK\$152.5 million, HK\$132.7 million and HK\$608.6 million respectively, and the total market value of securities pledged as collateral in respect of the loans to margin clients was approximately HK\$649.6 million, HK\$435.3 million and HK\$1,934.2 million respectively. Based on the unaudited management account of the Group as at 30 June 2010, the balance of the loans to margin clients amounted to approximately HK\$503.0 million, with a total market value of relevant securities pledged as collateral of approximately HK\$1,718.2 million.

### **Reliance on brokerage commission and interest income from financing business**

During the Track Record Period, provision of brokerage service for securities and financing had been the principal source of income of the Group. For each of the three years ended 31 March 2008, 2009 and 2010, brokerage commission income derived from the Group’s brokerage businesses accounted for approximately 59.0%, 92.1% and 81.7% respectively of the Group’s total turnover, while interest income derived from the Group’s financing business, including margin financing and IPO financing, accounted for approximately 41.0%, 7.9% and 18.3% respectively of the Group’s turnover for the corresponding years.

Both of the Group’s brokerage business and financing business may be affected by external factors, including the performance of the Hong Kong, Singapore and the US financial markets which are generally subject to economic conditions, investment sentiment and fluctuations in interest rates. These factors are beyond the Group’s control, and there is no assurance that the Group’s income derived from its brokerage business as well as financing business in the past would be sustained.

### **Competitive pressure**

The financial services industry in Asia and particularly in Hong Kong has a large number of participants and is highly competitive. As at 31 March 2010, there were approximately 499 and 171 exchange participants on the Stock Exchange and the Futures Exchange respectively. New participants may enter the industry provided that they possess professionals with the appropriate skills and are granted with the requisite licenses and permits.

Apart from the large multi-national financial institutions such as banks and investment banks with global network and local presence in Hong Kong, the Group faces local competition from branded medium-sized and established financial services firms, as well as other small-sized financial services

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## RISK FACTORS

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firms, which offer similar range of brokerage services of the Group. The Group may not be able to compete effectively and successfully with its competitors, and the Group’s results of operations may be adversely affected should such competition intensify.

While competition in the traditional brokerage business has historically been fierce amongst the international and local participants in the market, online securities and futures trading and financial information portals are now commonplace, and thus competition for online based clients has also become increasingly competitive.

The Group may not be able to compete effectively and successfully in all the business areas where the Group currently operates or plans to operate. In particular, the increasing competitive pressure may adversely affect the Group’s businesses, financial conditions, results of operations and prospects by, amongst other things:

- reducing the Group’s market share in its business areas;
- decreasing the Group’s interest spread;
- decreasing the Group’s brokerage commission and interest income;
- increasing sales and marketing expenses; and
- increasing competition for qualified employees.

There is no assurance that the Group can compete successfully against the Group’s current and future competitors, or that competitive forces in the market will not change the industry landscape such that the Group’s business objectives become impractical and/or impossible. Under those circumstances, the Group’s core businesses and financial performance would be adversely affected.

The Group also faces increasing competition because of internet trading technology currently being developed or which may be developed in the future by both its existing competitors as well as new market entrants. The Group cannot accurately predict how emerging and future technological changes in internet trading will affect the Group’s operation or the competitiveness of the Group’s services. The current mode of the Group’s business operation may be subject to intense competition from new technologies that emerge in the future, as well as existing and new financial service firms providing on-line trading services.

### **Risk of error trading**

During the course of the Group’s brokerage business operations, error trades may be entered into by the licensed personnel of the Group when processing orders placed by clients. These error trade positions may arise from mistakes made by the licensed personnel when inputting data or recording clients’ instructions. Upon discovery of any error trade, the Group has to take immediate action to close out such error trade positions made by its staff. The Group has to bear any losses arising from such error trades. For each of the three years ended 31 March 2008, 2009 and 2010, the Group incurred losses from error trades, which amounted to approximately HK\$390,000, HK\$383,000 and HK\$420,000 respectively. The Directors confirmed that save as aforementioned, the Group was not subject to any

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## RISK FACTORS

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disputes, claims, legal proceedings or other contingent liabilities in relation to any “error trades” during the Track Record Period, and has never been imposed any regulatory fines due to error trades up to the [Latest Practicable Date].

However, the Group’s profitability may be adversely affected if error trades are not effectively prevented or controlled by the Group.

### **Risk on branches network expansion**

The Group’s success depends on providing online brokerage services with a stable cost of operations. For each of the three years ended 31 March 2008, 2009 and 2010, value of transactions with orders placed online accounted for a significant portion of its total value of transactions. Since the beginning of 2010, the Group has commenced its branch network expansion strategy. It is the Group’s future plan to further expand its branch network in order to attract new clients, and to facilitate and provide better customer services to its clients. If the Group were to continue its branch network expansion and the financial market experience major downturn, it could have a negative impact upon the Group’s revenues and cause a decline in the Group’s result of operations.

### **Risk of operational and trading system failure**

The operation of the Group’s business is highly dependent on the capability and reliability of the computer systems used, in particular upon the introduction of its securities online trading platform in January 2005 and futures and options online trading platform in October 2007. Since technology advances rapidly, the Group may not be competitive or that further costs may be required for the development or maintenance of a more competitive computer system.

The computer system used by the Group for its business may be vulnerable to a number of disruptions such as computer viruses, hackers or other disruptive actions by visitors or other internet users. Such disruptions may cause data corruption and interruptions, delay or cessation in the services provided through the Group’s securities trading facilities which could have a material adverse effect on the Group’s business. Inappropriate use of the internet by third parties may also jeopardise the security of confidential information (such as client data or trading records) stored in the computer systems of the Group and cause losses to the Group. According to the Group’s records, except for the two system failures occurred in November 2007 and November 2008 as mentioned in the section headed “History, reorganisation and group structure” in this document, the Directors confirmed that there was no other system breakdown or disruptions to the computer systems used by the Group including but not limited to computer viruses, hackers, other disruptive actions by visitors or other internet users during the Track Record Period, which had a material adverse effect on the business and/or operations of the Group.

There is also a growing trend towards online securities and futures trading. As the Group’s existing securities, futures and options brokerage businesses mostly rely on the online trading systems, the Group’s prospects and results of operations may be adversely affected if there is a failure in the Group’s online trading system.

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## **RISK FACTORS**

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### **Reliance on key management personnel**

The Group’s business operation depends substantially on the continued services and performance of its key management personnel including Mr. Yip, the chairman and the founder of the Company, who is responsible for formulating the Group’s strategy and day-to-day management. The Group has entered into a service contract with Mr. Yip, which provides for a term of [3] years commencing from [●], and is terminable by either party upon giving [3] months’ written notice to the other party. If Mr. Yip, or other key management personnel, were unable or unwilling to continue their service, the Group may not be able to replace them with persons of equivalent expertise and experience within a reasonable period of time or at all. If any of the key management personnel or key employees of the Group joins a competitor or forms a competing company, the Group may lose clients, suppliers, know-how and key personnel and staff members. The Group’s business, financial conditions and results of operation may be materially and adversely affected, and the Group may need to incur additional costs to recruit, train and retain personnel.

### **Foreign exchange exposure**

[In order to facilitate its clients to trade futures contracts in Singapore and the US, the Group’s clients may place margin deposits in Hong Kong dollars.] [The Group tries to limit the foreign exchange exposure by placing margin deposits in Japanese yen, US dollars and Singapore dollars with its respective brokerage firms engaged to execute transactions on behalf of its clients in the above overseas markets.] However, the Group does not have a formal hedging policy in place and has not entered into any foreign currency exchange contracts or derivatives to hedge its foreign exchange risk. Fluctuations in exchange rates between the Hong Kong dollar and the Japanese yen, US dollars or Singapore dollars may lead to foreign exchange losses, thereby affecting the Group’s profitability. If the Japanese yen, US dollars and/or Singapore dollars depreciate, the Group may suffer an exchange loss.

The Group also receives commission from its clients in Hong Kong dollars while it pays commissions to its engaged brokerage firms in Japanese yen, US dollars and Singapore dollars. Should the Japanese yen, US dollars and/or Singapore dollars appreciate, the Group’s profit margin may be adversely affected.

For each of the three years ended 31 March 2008, 2009 and 2010, net foreign exchange loss/(gain) of the Group amounted to approximately HK\$Nil, HK\$4,977 and HK\$(75,472) respectively.

### **Collection of deposits placed with brokerage firms**

In order to facilitate the Group’s brokerage services for futures contracts traded on the exchanges in Singapore and the US, the Group is required to place margin deposits with two brokers to conduct such transactions. If any of its engaged brokers defaults on the Group’s deposits, the Group will suffer a loss for the outstanding balance maintained with such brokers. As at 31 March 2008, 31 March 2009 and 31 March 2010, the Group had an outstanding balance with its engaged brokerage firms of approximately HK\$Nil, HK\$2.2 million, and HK\$7.3 million respectively, representing approximately 0.0%, 1.0%, and 1.0% respectively of the Group’s total trade receivables as at the respective year end dates.

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## **RISK FACTORS**

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### **Dividend policy**

No dividend was paid or declared by the Company during the years ended 31 March 2008 and 2009.

Pursuant to the resolutions passed at the respective board meetings of Bright Smart Securities and Bright Smart Futures on 31 March 2010, dividends of HK\$116,050,000 and HK\$20,000,000 were declared to respective shareholders of Bright Smart Securities and Bright Smart Futures as at 31 March 2010 and will be settled before [●].

The declaration of future dividends will be at the discretion of the Directors and will depend on, among others, the Group’s earnings, financial condition, cash requirements and availability, and other factors as the Directors may deem relevant. Accordingly, historical dividend payments should not be regarded as an indication of future dividend policy.

### **RISKS RELATING TO THE INDUSTRY**

#### **Competition in internet securities trading**

The Group faces increasing competition because of the internet trading technology currently being developed or which may be developed in the future by both its existing competitors as well as new market entrants. The Group cannot accurately predict how emerging and future technological changes in internet trading will affect the Group’s operation or the competitiveness of the Group’s services. The current mode of the Group’s business operation may be subject to intense competition from new technologies that emerge in the future, as well as existing and new financial service firms providing on-line trading services.

#### **High level of liquidity required**

Pursuant to the FRR, a licensed corporation shall maintain liquid capital which is not less than the required level at all times. For each of Bright Smart Securities and Bright Smart Futures, the required liquid capital is the higher of HK\$3 million and 5% of the aggregate of (a) its adjusted liabilities; (b) the aggregate of the initial margin requirements in respect of outstanding futures contracts and outstanding options contracts held by it on behalf of its clients; and (c) the aggregate of the amounts of margin required to be deposited in respect of outstanding futures contracts and outstanding options contracts held by it on behalf of its clients, to the extent that such contracts are not subject to payment of initial margin requirements.

The 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 take appropriate actions against the Group, which may adversely affect the Group’s operations and performance. During the Track Record Period, there has been no prior failure to maintain the required liquidity level (i.e. FRR requirement) of Bright Smart Securities and Bright Smart Futures, the two operating subsidiaries of the Group.] Please refer to the sub-section headed “Current internal control system — Margin financing policy — credit control procedures and monitoring of financial resources” in the “Business” section of this document for details of the internal control procedures in place to monitor the Group’s liquid capital requirement.

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## **RISK FACTORS**

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### **Grant of new trading rights**

Holding of a trading right of each of the Stock Exchange and the Futures Exchange is a prerequisite to a participant's access to the trading facilities of the Stock Exchange and the Futures Exchange respectively since the merger of both exchanges on 6 March 2000 (the “Effective Date”). The Stock Exchange and the Futures Exchange imposed a moratorium on the issue of new trading rights (except for such rights as may be issued in respect of alliances with other exchanges) for a period of two years from the Effective Date. Furthermore, no new Stock Exchange Trading Right or Futures Exchange Trading Right was issued for less than the specified consideration for a further period of two years. The moratorium on the issue of new trading rights and the lower limit on the price of new trading rights were removed on 6 March 2002 and 6 March 2004 respectively. An increase in the number of trading rights on the Stock Exchange and/or the Futures Exchange will inevitably further intensify competition in the brokerage industry for securities, futures and options. The increase in number of brokers who hold the trading rights of the Stock Exchange and the Futures Exchange as a result of an increase in the supply of such trading rights may adversely affect the market share of the Group in its businesses and hence the Group's results of operation and prospects.

### **RISKS RELATING TO HONG KONG**

#### **Economic and political considerations**

Hong Kong is currently the primary focus of the Group's business. The Hong Kong economy has experienced a downturn in the past few years which was principally attributable to the financial tsunami and global downturn from the second half of 2008 to the first half of 2009, although the global economy has shown signs of improvement and the economic outlook is positive in general. Foreign investors have in recent years continued to invest heavily into Asia generally, drawn in particular by the strong growth prospects in markets such as the PRC. However, the long term impact of, among others, the current interest rate environment, financial and regulatory policies imposed by governments in different countries, volatility of commodity prices and exchange rates, as well as the political and social environments, still remains uncertain going forward, and may significantly affect the global economies. If any of the above factors changes unexpectedly and unfavorably, the global financial situation deteriorates, the PRC and other key Asian markets begin to slow down, and/or any unanticipated event, which gives rise to adverse impact on the financial market, takes place, current liquidity levels and capital inflows into the PRC and Hong Kong markets may fall, and the economic climate in the region may deteriorate, in which case the Group's business, prospects, financial conditions and results of operation may be adversely affected.

### **RISK RELATING TO THIS DOCUMENT**

#### **Forward-looking statements**

This document contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to (i) the Group's business strategies and plan of operation; (ii) the Group's capital expenditure plans; (iii) the amount and nature of, and potential for, future development of the business of the Group; (iv) the Group's operations and business prospects; (v) the Company's dividend policy; (vi) projects under planning; (vii) the Group's strategies, plans, objectives and goals; (viii) the regulatory environment of

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## **RISK FACTORS**

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the industry in general, and the future developments, trends and conditions; (ix) capital market developments; (x) actions and developments of the Group’s competitors; and (xi) other statements in this document that are not historical facts.

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

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

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## **WAIVERS FROM COMPLIANCE WITH THE LISTING RULES**

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The Group has entered into certain transactions which would constitute continuing connected transactions that are subject to the reporting, announcement and/or shareholders approval requirements under the Listing Rules after the Listing. Further particulars about such transactions together with the application for waivers from strict compliance with the relevant requirements under Chapter 14A of the Listing Rules are set out in the section headed “Connected transactions” in this document.

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## DIRECTORS AND PARTIES INVOLVED

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### DIRECTORS

| <u>Name</u>                                | <u>Address</u>                                                                                               | <u>Nationality</u> |
|--------------------------------------------|--------------------------------------------------------------------------------------------------------------|--------------------|
| <b>Executive Directors</b>                 |                                                                                                              |                    |
| Yip Mow Lum                                | House B7<br>King’s Court<br>5 Mount Kellett Road<br>Hong Kong                                                | Chinese            |
| Chan Kai Fung                              | Flat D, 12th Floor<br>Tower 125<br>11 Po Yan Street<br>Sheung Wan<br>Hong Kong                               | Chinese            |
| Kwok Sze Chi                               | Flat C, 27th Floor<br>Tower 2, The Victoria Towers<br>188 Canton Road<br>Tsimshatsui<br>Kowloon<br>Hong Kong | Chinese            |
| Chan Wing Shing, Wilson                    | Flat D, 10th Floor<br>Lascar Court<br>3 Lok Ku Road<br>Sheung Wan<br>Hong Kong                               | Chinese            |
| Hui Wah Chiu                               | Flat E, 7th Floor<br>Gillies Mansion<br>27–37 Gillies Avenue<br>Hung Hom<br>Kowloon<br>Hong Kong             | Chinese            |
| <b>Independent non-executive Directors</b> |                                                                                                              |                    |
| Yu Yun Kong                                | Flat E, 9/F., Block 4<br>Discovery Park<br>398 Castle Peak Road<br>Tsuen Wan<br>New Territories              | Chinese            |

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## DIRECTORS AND PARTIES INVOLVED

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| <u>Name</u>           | <u>Address</u>                                                                            | <u>Nationality</u> |
|-----------------------|-------------------------------------------------------------------------------------------|--------------------|
| Szeto Wai Sun         | Flat B, 9/F, Block 5<br>Coastal Skyline<br>Tung Chung<br>Lantau Island<br>New Territories | Chinese            |
| Ling Kwok Fai, Joseph | Room 629, 6/F<br>Tower 4<br>Hong Kong Parkview<br>88 Tai Tam Reservoir Road<br>Hong Kong  | Chinese            |

### PARTIES INVOLVED IN THE [●]

|                                      |                                                                                                                                                                                                                                                             |
|--------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Reporting Accountants</b>         | KPMG<br>8th Floor<br>Prince’s Building<br>10 Chater Road<br>Central, Hong Kong                                                                                                                                                                              |
| <b>Legal Advisers to the Company</b> | <i>as to Hong Kong law:</i><br>K&L Gates<br>44/F Edinburgh Tower<br>The Landmark<br>15 Queen’s Road Central<br>Hong Kong<br><br><i>as to Cayman Islands law:</i><br>Appleby<br>8th Floor<br>Bank of America Tower<br>12 Harcourt Road<br>Central, Hong Kong |
| <b>Property Valuer</b>               | DTZ Debenham Tie Leung Limited<br>16th Floor<br>Jardine House<br>1 Connaught Place<br>Central<br>Hong Kong                                                                                                                                                  |

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## CORPORATE INFORMATION

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|                                                 |                                                                                                                                                                                 |
|-------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Registered Office</b>                        | Scotia Centre<br>4th Floor<br>P.O. Box 2804<br>George Town<br>Grand Cayman KY1-1112<br>Cayman Islands                                                                           |
| <b>Principal Place of Business in Hong Kong</b> | 10th Floor<br>Wing On House<br>71 Des Voeux Road Central<br>Hong Kong                                                                                                           |
| <b>Company Secretary</b>                        | Wong Yee Yin, Hubert                                                                                                                                                            |
| <b>Authorised Representatives</b>               | Chan Kai Fung<br>Wong Yee Yin, Hubert                                                                                                                                           |
| <b>Audit Committee</b>                          | Yu Yun Kong ( <i>Chairman</i> )<br>Szeto Wai Sun<br>Ling Kwok Fai, Joseph                                                                                                       |
| <b>Remuneration Committee</b>                   | Yip Mow Lum ( <i>Chairman</i> )<br>Yu Yun Kong<br>Szeto Wai Sun<br>Ling Kwok Fai, Joseph                                                                                        |
| <b>Nomination Committee</b>                     | Yip Mow Lum ( <i>Chairman</i> )<br>Yu Yun Kong<br>Szeto Wai Sun<br>Ling Kwok Fai, Joseph                                                                                        |
| <b>Principal Bankers</b>                        | Wing Hang Bank, Limited<br>161 Queen’s Road Central<br>Central<br>Hong Kong<br><br>Bank of Communication Co., Ltd. Hong Kong Branch<br>20 Pedder Street<br>Central<br>Hong Kong |
| <b>Company’s Website</b>                        | <a href="http://www.bsgroup.com.hk">http://www.bsgroup.com.hk</a><br><i>(information contained in this website does not form part of this document)</i>                         |

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## INDUSTRY OVERVIEW

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*Certain information provided in this section is derived from various public official or government sources. The Company and the [●] have exercised reasonable care in reproducing such information from the sources referred to in this document. Such information, however, has not been prepared or independently verified by the Company, the [●], [●], [●], [●] or their respective directors or advisers. The Company, the [●], [●], [●], the [●], their respective directors and advisers or any other parties involved in the [●] make no representation as to the accuracy or completeness of this information, which may not be consistent with information compiled from other sources, and accordingly such information contained in this section may not be accurate and should not be unduly relied upon.*

### HISTORY OF THE HONG KONG SECURITIES MARKET

Records of securities trading in Hong Kong can be traced back to 1866, while the first formal stock market was established in 1891. The current Stock Exchange, which commenced operation in 1986, was formed from the unification of four stock exchanges in the same year. The stock market crash in 1987 signified the need for a reform of the securities industry in Hong Kong, and the SFC was subsequently set up in May 1989 as the single statutory securities market regulator to regulate the securities and futures markets in Hong Kong. The introduction of CCASS in 1992 and the automatic order matching and execution system (“AMS”) in 1993 brought further improvement to the securities market infrastructure. In November 1999, the Stock Exchange set up the GEM in order to provide platform of fund raising for companies with all sizes from all industries with growth potentials. On 6 March 2000, the Stock Exchange, the Futures Exchange and HKSCC were merged under a single holding company, HKEx. HKEx listed its shares by introduction on the Main Board on 27 June 2000.

Since the first PRC incorporated enterprise was listed in Hong Kong in July 1993, there were increasing number of PRC related enterprises listed on the Main Board and the GEM. On 26 November 2009, China Minsheng Banking Corporation Limited became listed on the Main Board, with gross proceeds of approximately HK\$31.23 billion raised, and was held the biggest public share sales in Hong Kong in 2009. Another mainland financial company, China Pacific Insurance (Group) Company Limited, listed on the Main Board on 23 December 2009, raised gross proceeds of approximately HK\$24.12 billion to rank second. As at 31 March 2010, there were 253 PRC related enterprises (comprising H-share and red chip companies) listed on the Main Board and the GEM. This number is expected to increase in future as more and more PRC related enterprises seek to raise foreign funds for their continued growth.

In addition, following the listings of the Germany-based manufacturer and supplier of coatings, Schramm Holding AG, and the Russia-based aluminum producer, United Company Rusal Limited on the Main Board in December 2009 and January 2010 respectively, it is expected in general that more overseas companies with business located overseas will seek to list in Hong Kong in the future.

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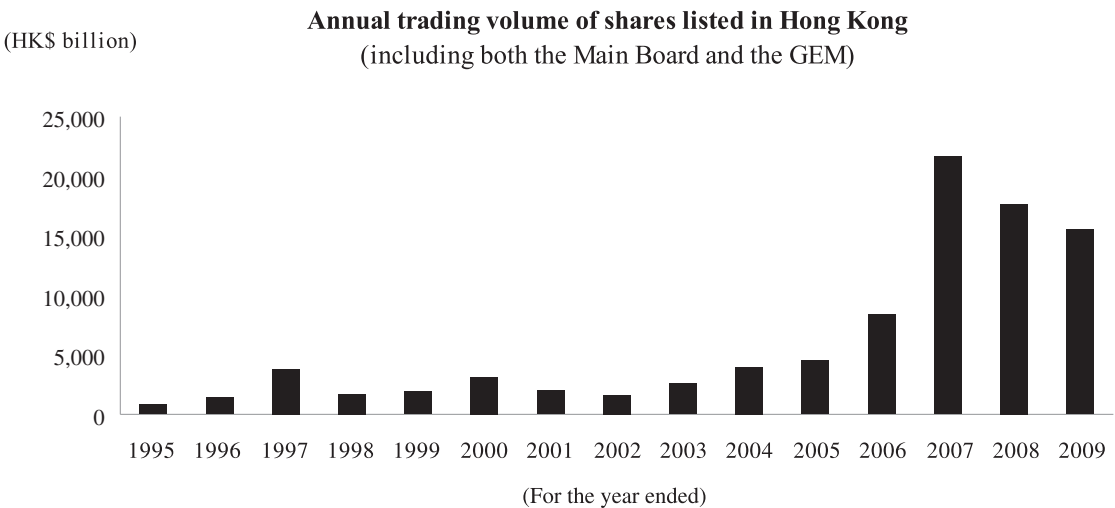
## INDUSTRY OVERVIEW

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In 2009, total capital raised from the Hong Kong securities market through IPOs amounted to HK\$243.9 billion, which represented an increase of 270% when compared with the HK\$66 billion raised in 2008. Average daily turnover of the Hong Kong securities market amounted to HK\$62.3 billion (including both the Main Board and the GEM) for the year ended 31 December 2009. As at 31 March 2010, a total number of 1,332 companies were listed on the Stock Exchange (including both the Main Board and the GEM).

### SECURITIES TRADING IN HONG KONG

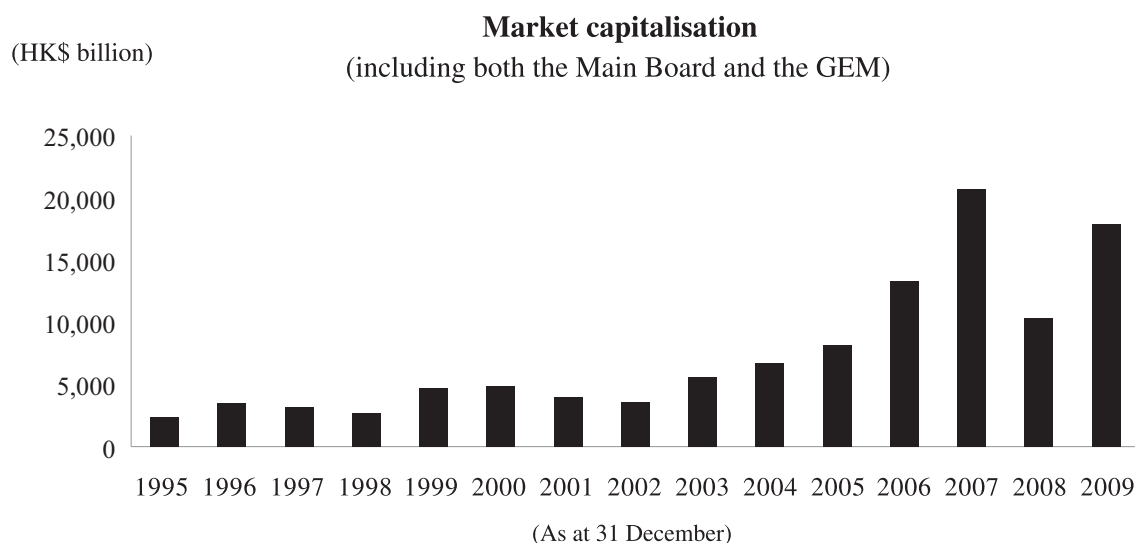
The Main Board and the GEM are the two markets operated by the Stock Exchange for securities trading, with the Main Board as a platform for larger and more established companies with a trading record of at least three financial years, and the GEM as another platform of fund raising for companies with all sizes from all industries with growth potentials.



Source: HKEx

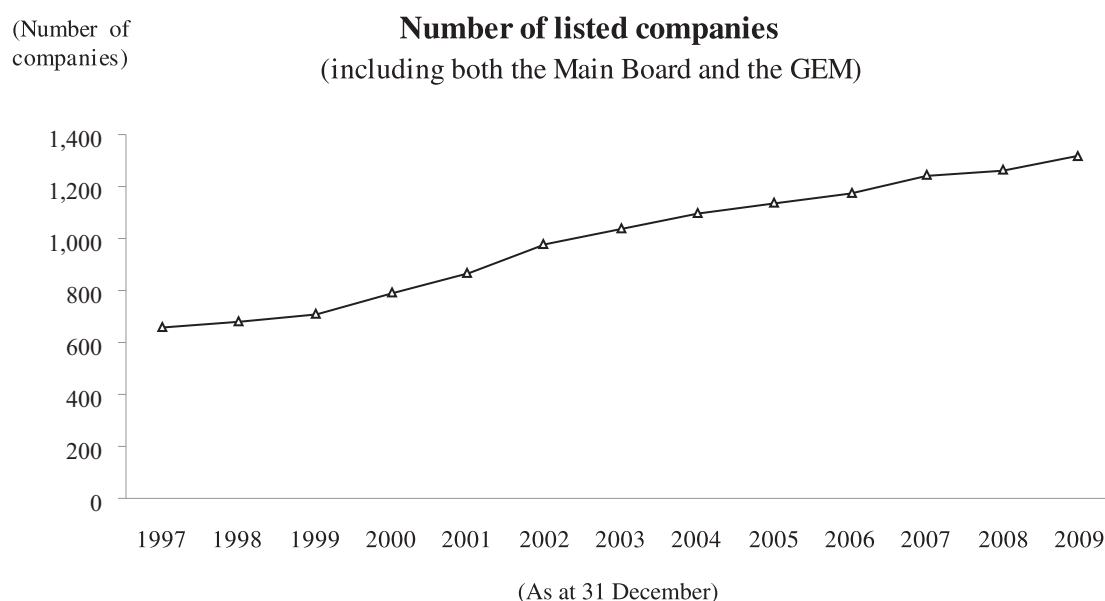
The annual trading volume of shares in terms of monetary amount contracted in 1998 following the 1998 Asian financial crisis, but gradually recovered in the following two years. After experiencing a downward trend between 2000 and 2002, the annual turnover of the Stock Exchange in monetary terms enjoyed a prolonged period of growth since 2003 and reached a high level in 2007. The breakout of the financial tsunami in 2008 dragged on the trading volume (in HK dollars) of the Stock Exchange of that year as well as the subsequent year.

## INDUSTRY OVERVIEW



Source: HKEx

As at 31 March 2010, there were 1,158 companies listed on the Main Board, 116 of which were H-share companies and 92 were red chip companies. The market capitalisation of the Main Board as at 31 March 2010 was approximately HK\$17,920.9 billion. As at 31 March 2010, 174 companies were listed on the GEM and among them 40 were H-share companies and 5 were red chip companies. The GEM's market capitalisation as at 31 March 2010 amounted to approximately HK\$134.7 billion.



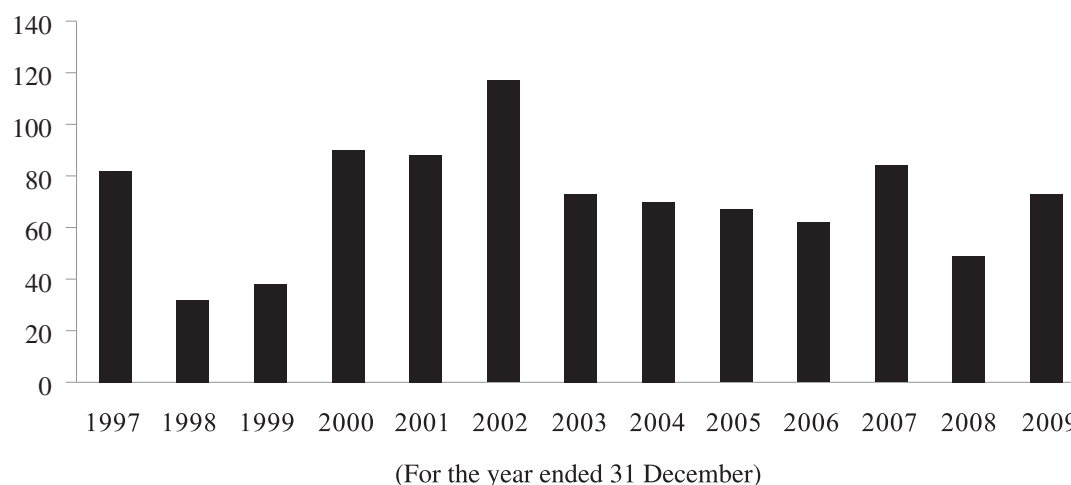
Source: HKEx

Between 1997 and 2009, the number of companies having shares listed on the Main Board has increased from 658 as at 31 December 1997 to 1,158 as at 31 March 2010, while the total market capitalisation on the Main Board has increased by more than quadruple to approximately HK\$17,920.9 billion as at 31 March 2010. Since the establishment of the GEM in 1999, the number of companies having shares listed has increased from 7 as at 31 December 1999 to 174 as at 31 March 2010.

## INDUSTRY OVERVIEW

(Number of  
companies)

**New Listing**  
(including both the Main Board and the GEM)



Source: HKEx

At the end of December 2009, the Stock Exchange was among the leading stock exchanges in the world and ranked the seventh largest territorial stock market in the world in terms of market capitalisation of the companies listed on both the Main Board and the GEM and the third largest stock market in Asia.

| Exchange |                               | Market Capitalisation |                  |
|----------|-------------------------------|-----------------------|------------------|
|          |                               | As at                 | As at            |
|          |                               | 31 December 2009      | 31 December 2008 |
|          |                               | US\$ billion          | US\$ billion     |
| 1        | NYSE Euronext (United States) | 11,838                | 9,209            |
| 2        | Tokyo Stock Exchange Group    | 3,306                 | 3,116            |
| 3        | NASDAQ OMX (United States)    | 3,239                 | 2,249            |
| 4        | NYSE Euronext (Europe)        | 2,869                 | 2,102            |
| 5        | London Stock Exchange         | 2,796                 | 1,868            |
| 6        | Shanghai Stock Exchange       | 2,705                 | 1,425            |
| 7        | The Stock Exchange            | 2,305                 | 1,329            |
| 8        | TMX Group                     | 1,608                 | 1,033            |
| 9        | BM&FBOVESPA                   | 1,337                 | 592              |
| 10       | Bombay Stock Exchange         | 1,306                 | 647              |

Source: The World Federation of Exchanges

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## INDUSTRY OVERVIEW

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### Securities products on the Stock Exchange

Securities listed on the Main Board include equity securities, warrants, debt securities, unit trusts and mutual funds. To meet its stakeholders’ demands, the Stock Exchange has sought to expand its business through broadening its range of products and services. The first derivative warrant was admitted for listing in Hong Kong in February 1988. Regulated short selling and stock options were introduced in January 1994 and September 1995 respectively to enable more flexible portfolio investment by investors.

### Stock Exchange Participants

A Stock Exchange Participant, who is also a holder of Stock exchange Trading Right, is entitled to trade in securities through the trading facilities of the Stock Exchange. A Stock Exchange Participant must be a company limited by shares incorporated in Hong Kong and be a licensed corporation under the SFO to carry on Type 1 (dealing in securities) regulated activity under the SFO. A minimum capital requirement must be met in order to be registered as a Stock Exchange Participant. Generally speaking, Stock Exchange Participants must have a minimum paid-up share capital of HK\$5 million (with a minimum liquid capital of HK\$3 million). If the Stock Exchange Participants also provide securities margin financing, the minimum paid-up share capital will increase to HK\$10 million (with a minimum liquid capital of HK\$3 million). For Stock Exchange Participants carrying on Type 4 (advising on securities) regulated activities, the minimum paid-up share capital is HK\$5 million. In some circumstances, providers of financing services may also require licenses under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). In addition, Stock Exchange Participants are required to comply with the financial resources requirements specified in the FRR made by the SFC under the SFO and where applicable, the financial resources requirements made under the rules of the Stock Exchange.

As at 31 March 2010, there were a total of 521 Stock Exchange Trading Right holders, of which 468 were Trading Participants, 31 were Non-trading Participants and 22 were non-Stock Exchange Participants.

In order to conduct options trading on the Stock Exchange, a Stock Exchange Participant must become admitted and registered by the Stock Exchange as an options exchange participant as either an Options Trading Exchange Participant or an Options Broker Exchange Participant.

### Trading and settlement

Trading on the Stock Exchange is conducted through terminals in the trading hall of the Stock Exchange or through the off-floor trading devices at Stock Exchange Participants’ offices. The third generation of the AMS (“AMS/3”) is a trading system developed by the Stock Exchange and was launched on 23 October 2000. The AMS/3 enables investors to place trading requests electronically such as the Internet and mobile phones using the network of operators who participate in AMS/3.

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## INDUSTRY OVERVIEW

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The trading capacity of a Stock Exchange Participant, which is called the throttle rate, determines the rate at which orders can be sent through an open gateway to the AMS/3 by the Stock Exchange Participant. The standard throttle rate is one order per second. The scheme that enables Stock Exchange Participants to increase their throttle rates in integral multiples of one order per second by payment of additional fee was launched in December 2002, which helps brokers to operate more efficiently.

Trades matched in AMS/3 are automatically transmitted to CCASS. These trades are then novated by HKSCC, a wholly-owned subsidiary of HKEx, which acts as the central counterparty to both the buyers and sellers, and guarantees the final settlement of these trades. Clearing positions are created and settled on a continuous net settlement basis two days after the trade date (i.e. T+2). CCASS, a computerised book-entry clearing and settlement system, reduces scrip circulation in the market by the immobilisation of share certificates delivered by clearing participants in HKSCC’s central securities depository. Settlement is electronically recorded as debits or credits to clearing participants’ stock accounts, without the physical movement of share certificates. Settlement is electronically recorded as increases or decreases in participant’s stock account balances, without the physical transfer of share certificates. Under CCASS, HKSCC becomes the central risk taker by substituting itself as the universal counter-party to Stock Exchange trades to be settled under continuous net settlement system (“CNS System”). This effectively guarantees settlement of Stock Exchange trades by broker participants.

Under HKSCC, there are seven categories of participantship, namely Direct Clearing Participant, General Clearing Participant, Custodian Participant, Stock Ledger Participant, Stock Pledge Participant, Clearing Agency Participant and Investor Participant.

## HISTORY OF THE HONG KONG FUTURES MARKET

In 1976, the Futures Exchange was established, and introduced its first financial futures product, the HSI futures, in May 1986. On 6 March 2000, the Stock Exchange, the Futures Exchange and HKSCC merged under a single holding company, HKEx.

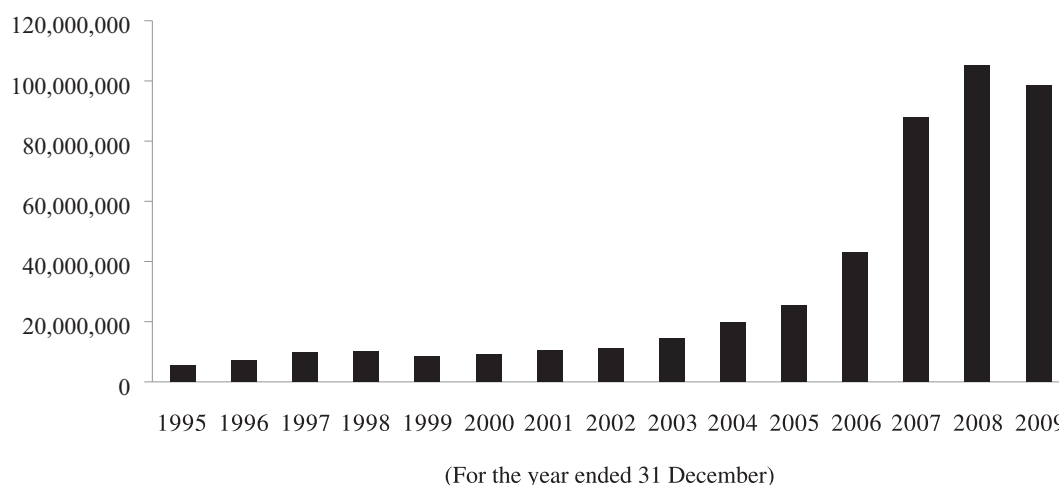
For the year ended 31 December 2009, derivatives market contributed 11.0% of HKEx’s income from external clients. Derivatives currently offered by the Futures Exchange include the following types, namely, (a) equity index derivatives such as HSI futures and options, and mini-HSI futures and options; (b) equity derivatives such as stock futures and options; (c) interest rate and fixed income derivatives such as one-month HIBOR futures, three-month HIBOR futures and three-year exchange fund note futures; and (d) gold futures. Among these, stock options are the most important derivatives at the Futures Exchange today. Over 86% of the option contracts traded in 2009 on the Stock Exchange were stock options.

## INDUSTRY OVERVIEW

The total annual number of futures and option contracts traded in Hong Kong has grown from approximately 5.6 million in 1995 to approximately 98.5 million in 2009.

(No. of contracts  
traded)

### Total futures and option contracts traded on the Futures Exchange between 1995-2009



Source: HKEx

## FUTURES TRADING IN HONG KONG

### Futures Exchange Participants

A Futures Exchange Participant, who is also a holder of Futures Exchange Trading Right, is entitled to trade in futures contracts and/or options contracts on its own account through the trading facilities of the Futures Exchange. A Futures Exchange Participant must be a company limited by shares incorporated in Hong Kong and be a licensed corporation under the SFO to carry on Type 2 (dealing in futures contracts) regulated activity under the SFO. Like Stock Exchange Participants, a minimum capital requirement must be met in order to be registered as a Futures Exchange Participant. In addition, Futures Exchange Participants are required to comply with the financial resources requirements specified in the FRR made by the SFC under the SFO and where applicable, the financial resources requirements made under the rules of the Stock Exchange. As at 31 March 2010, there were a total of 214 Futures Exchange Trading Right holders, of which 171 were trading Futures Exchange Participants and 43 were non-Futures Exchange Participants.

### Trading and settlement

Trading on the Futures Exchange is conducted through an electronic trading system, namely the HKATS. Following the migration of HSI futures and options trading to the new electronic platform HKATS in June 2000, the derivatives market became fully electronic. Since then, HKATS has been the trading platform of all Futures Exchange's products and stock options. With HKATS, users can view real-time price information on a computer screen, click on a bid or ask price and execute an order.

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## INDUSTRY OVERVIEW

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Trading of derivatives products executed on the HKATS are settled through the Derivatives Clearing and Settlement System (“DCASS”), an electronic and automated clearing and settlement system capable of supporting different types of derivatives products.

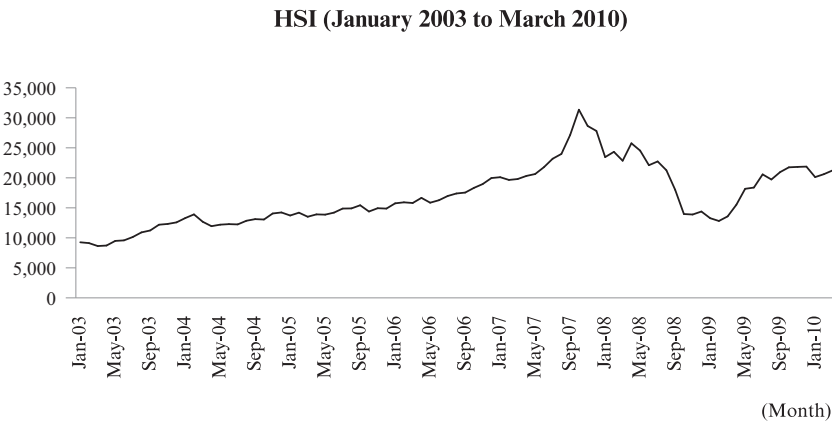
### INDICES

Major indices are set out below.

#### The HSI

A number of indices have been launched to track the performance of different industry groupings of companies whose securities are listed on the Stock Exchange. Of these the most frequently cited is the HSI. The HSI is compiled and managed by Hang Seng Indexes Company Limited (formerly known as HSI Services Limited), which is a wholly-owned subsidiary of Hang Seng Bank. Since its inception in November 1969, HSI has become the most widely quoted indicator of the performance of the Hong Kong stock market, both locally and internationally. Also known as the Hong Kong Blue Chip Index, the HSI measures the performance of largest and most liquid companies listed in Hong Kong. It adopts freefloat-adjusted market capitalisation weighted methodology with a 15% cap on each constituent weighting.

As at 31 March 2010, HSI comprised 43 constituent stocks and such stocks covered approximately 58.9% of the market capitalisation of all eligible stocks listed on the Main Board. Only companies with a primary listing on the Main Board are eligible for selection to become constituents of the HSI. The list of the stock composition is reviewed on a quarterly basis by Hang Seng Indexes Company Limited (formerly known as HSI Services Limited). In 1985, four sub-indices of the HSI were introduced to better reflect the price movements of the major sectors of the market. These four indices were divided into finance, utilities, properties and commerce and industry. The HSI index was set at 100 with the base day at 31 July 1964. As at 31 March 2010, the HSI was valued at approximately 21,239.4 points.



Source: Bloomberg

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## INDUSTRY OVERVIEW

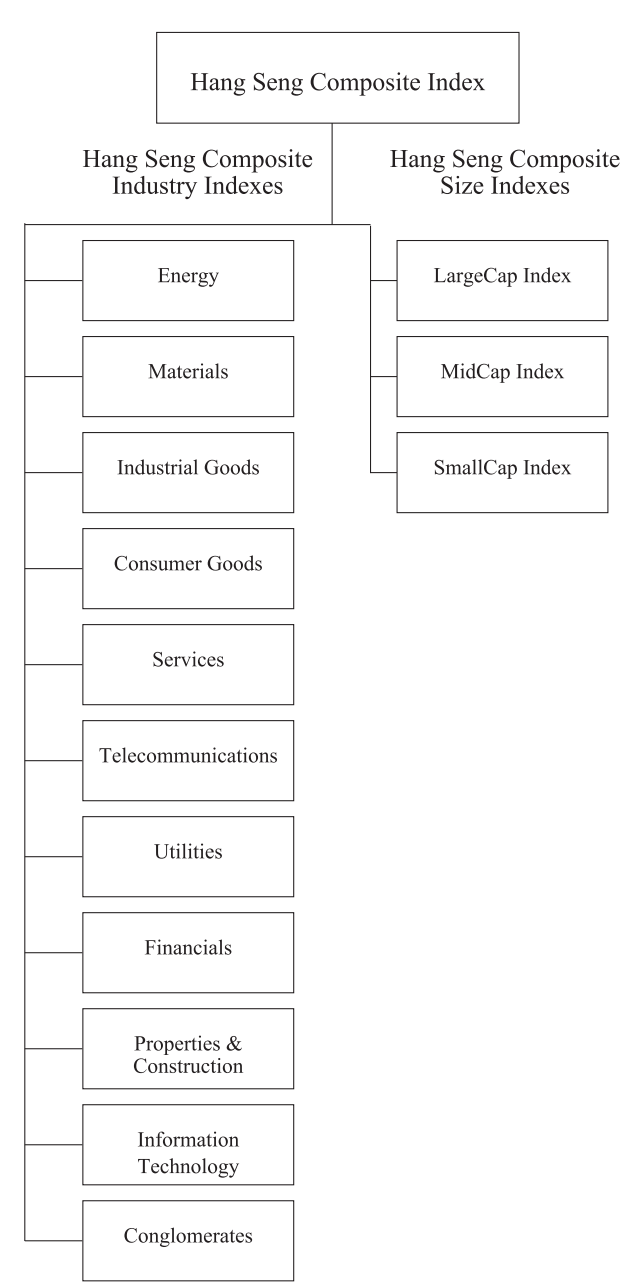
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### Hang Seng Composite Index

Launched on 3 October 2001, the Hang Seng Composite Index Series comprises the top 200 listed companies on the Hong Kong stock market and aims to provide a comprehensive benchmark of the performance of stocks listed on the Stock Exchange. This series covers approximately 95% of the total market capitalisation of the stocks listed on the Main Board. Eleven sub-indices according to different industries have been created which include:

- Energy
- Materials
- Industrial Goods
- Consumer Goods
- Services
- Telecommunications
- Utilities
- Financials
- Properties & Construction
- Information Technology
- Conglomerates

INDUSTRY OVERVIEW



Source: Hang Seng Indexes Company Limited

Only companies with a primary listing on the Main Board are regarded as eligible constituents of the Hang Seng Composite Index. The list of the constituents is reviewed on a half-yearly basis. The index was set at 2,000 with the base day at 3 January 2000. As at 31 March 2010, the Hang Seng Composite Index was approximately 3,013.7.

Standard & Poor’s Indices

In March 2003, Standard & Poor’s and HKEx together created the S&P/HKEx LargeCap Index and the S&P/HKEx GEM Index to reflect the real-time performance of the Main Board and the GEM respectively. The S&P/HKEx Indices are maintained by an index committee which consists of five

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## INDUSTRY OVERVIEW

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members, three representatives from Standard & Poor’s and two from HKEx. Index additions are selected from a pool of eligible securities continuously monitored by the committee. When adding new constituents, the committee strives to include companies with proven track records.

The S&P/HKEx LargeCap Index is a float-adjusted index, covering approximately 75% of the Main Board by market capitalisation and comprising of 25 constituents. The index is market-capitalisation weighted, with each company’s weight reflective of shares publicly available for trading, and is balanced across [10] Global Industry Classification Standard sectors. S&P/HKEx LargeCap Index constituents are selected for inclusion using Standard & Poor’s guidelines for evaluating company capitalisation, liquidity and fundamentals. The S&P/HKEx LargeCap Index will serve as the base for relative derivative products such as exchange traded funds, and index options and futures. To prevent the index being dominated by only a few companies, stocks with a relative weight in excess of 15% will be capped on a quarterly basis. The index is based at 23 February 2003 with a base value of 10,000. As at 31 March 2010, the S&P/HKEx LargeCap Index was approximately 24,850.4.

The S&P/HKEx GEM Index is float-adjusted for market capitalisation, to reflect share available for trading to the public, and does not have a fixed number of index constituents. At its inception on 3 March 2003, the index included 46 companies. A quarterly rebalancing process will be used to remove companies that comprise less than 0.25% of the weight of the index, and add companies whose weight, once included, are greater than 0.5% of the index. Companies must also meet minimum liquidity requirements to be eligible for inclusion. Companies removed during each quarter through regular corporate actions, will not be replaced at the time of the deletion. The index is based at 28 February 2003 with a base value of 1,000. As at 31 March 2010, the S&P/HKEx GEM Index was approximately 832.3.

## THE ONLINE BROKERAGE INDUSTRY IN HONG KONG

According to the “Cash Market Transaction Survey 2008/09” conducted by the HKEx for Hong Kong cash market, the share of retail online trading value has risen from around 1.9% of total retail investor trading during the period from October 1999 to September 2000 to around 21.5% of total retail investor trading during the period from October 2008 to September 2009. According to the same survey, the number of brokers that offer online trading service to retail investors increased from 97 (or 25.7% of all surveyed brokers in the 2004/05 survey) to 173 (or approximately 42.2% of all surveyed brokers in the 2008/09 survey). Retail investors in this survey represented investors who trade on their personal accounts.

As indicated in the “Guidance Note on Internet Regulation” released by the SFC in March 1999, in general, the SFC will not seek to regulate securities dealing conducted over the Internet that originate outside Hong Kong, provided that such activities are not detrimental to the interests of the investing public in Hong Kong. Since then, there were no additional registration and licensing requirements for a company to conduct securities and commodities dealing through the Internet. The SFC would expect registered persons to put in place additional operational measures if they intend to conduct securities dealing, commodity and futures trading and leveraged foreign exchange trading activities over the Internet. These measures cover aspects of suitability and general conduct, order handling and execution, system integrity, responsible personnel, written procedures, client agreements, record keeping and reporting.

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## INDUSTRY OVERVIEW

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### FUTURES MARKET IN U.S. AND SINGAPORE

#### The futures market in the U.S.

The U.S. is considered a major futures market in the world, with an annual turnover of approximately 3,229 million and 3,372 million futures and futures options contracts in 2007 and 2008 respectively. Major futures exchanges in the US include the Chicago Board of Trade, Chicago Mercantile Exchange, New York Mercantile Exchange and ICE Futures U.S.

#### Chicago Board of Trade (“CBOT”)

On 3 April 1848, the Chicago Board of Trade was officially founded and the earliest corn forward contract was recorded in 1851. The modern form of futures contract that requires performance bonds, i.e. margin, was not formalised until 1865. In 1977, CBOT launched the US Treasury Bond futures contract.

In 1998, the board of directors of CBOT established side-by-side trading of financial contracts. On 26 April 2006, CBOT announced that it would increase global access to its benchmark agricultural products by offering trading of CBOT full-sized, physically delivered agricultural futures contracts on its electronic trading platform during daytime trading hours. Trading began on 1 August 2006.

On 12 July 2007, the CBOT merged with the CME to form CME Group Inc..

The trading volume of CBOT, in terms of the number of contracts traded, amounted to approximately 961 million and 681 million for 2008 and 2009 respectively.

#### Chicago Mercantile Exchange (“CME”)

Founded in 1898, the Chicago Mercantile Exchange was called the Chicago Butter and Egg Board until 1919. In November 2000, CME became the first US financial exchange to demutualise and become a shareholder-owned corporation. Its products include futures on interest rates, currency, stock indices and agricultural products, Euro dollars and mini S&P futures.

The exchange went public in December 2002, and merged with CBOT in July 2007 to become CME Group Inc. On 17 March 2008, it announced its acquisition of NYMEX Holdings Inc., the parent company of NYMEX (as defined below), which was formally completed on 22 August 2008.

The trading volume of CME, in terms of the number of contracts traded, amounted to approximately 1,893 million and 1,476 million for 2008 and 2009 respectively.

#### New York Mercantile Exchange (“NYMEX”)

The New York Mercantile Exchange was founded in 1872. NYMEX merged with New York Commodities Exchange (“COMEX”) in 1994 and converted into a for-profit organisation in 2000. Trading is conducted through two divisions: the NYMEX Division, which is the home of energy, platinum and palladium markets, and the COMEX Division, where metals like gold, silver and copper are traded. The parent company of NYMEX, NYMEX Holdings Inc. became listed on the New York Stock Exchange on 17 November 2006.

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## INDUSTRY OVERVIEW

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The trading volume of NYMEX and COMEX, in terms of the number of contracts traded, amounted to approximately 433 million for 2009.

### **ICE Futures U.S. (“ICEF”)**

The New York Board of Trade, renamed ICE Futures U.S. in 2007, was formed from the merger of the New York Cotton Exchange (“NYCE”) and the Coffee, Sugar and Cocoa Exchange in 2004. Its history began with the founding of the NYCE in 1870. ICEF is one of the largest derivatives exchange in the United States, offering futures and options on agricultural commodities, foreign exchange and equity indexes.

The trading volume of ICEF, in terms of the number of contracts traded, amounted to approximately 81 million and 93 million for 2008 and 2009 respectively.

### **The futures market in Singapore**

The Singapore International Monetary Exchange (“SIMEX”), established in 1984, was Asia’s first financial futures market. Developed out of the former Gold Exchange of Singapore, SIMEX provided commodity futures contracts in gold and energy products as well as other futures and options products. Following the merger between SIMEX and the Stock Exchange of Singapore (“SES”), Singapore Exchange Limited (“SGX”) was inaugurated on 1 December 1999. On 23 November 2000, SGX became listed via a public offer and a private placement. Listed on its own bourse, the SGX stock is a component of benchmark indices such as the MSCI Singapore Free Index and the Straits Times Index.

Derivatives traded on SGX include the followings:

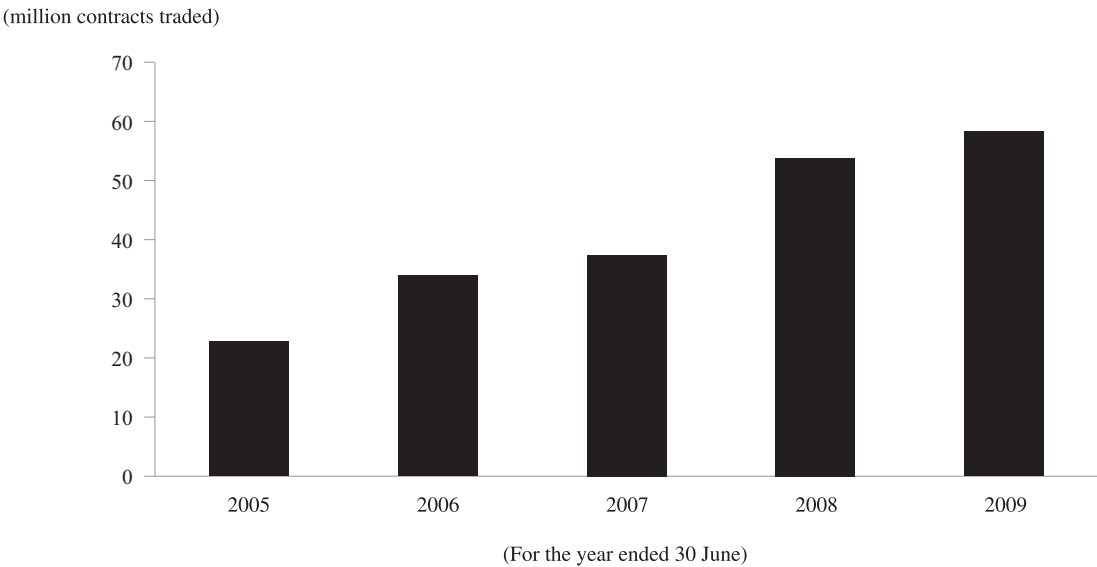
- Equity Index Futures and Options on Futures
- Short-Term Interest Rate Futures and Options on Futures
- Long-Term Interest Rate Futures and Options on Futures
- Extended Settlement (ES) Contracts
- Commodity Futures
- Structured Warrants
- Certificates
- OTC clearing of energy, freight and bulk commodity derivatives

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## INDUSTRY OVERVIEW

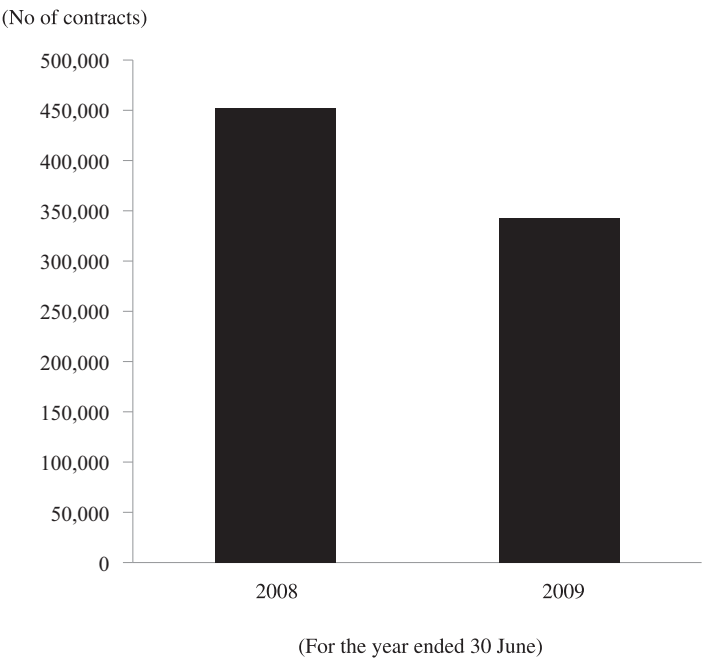
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### Futures & Options Volume Traded in SGX



Source: 2009 Annual Report of SGX

### Volume traded in SICOM



Source: 2009 Annual Report of SGX

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## SUMMARY OF LEGAL AND REGULATORY PROVISIONS

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### REGULATION

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

### REGULATORY ENVIRONMENT IN HONG KONG

#### Three-tier regulatory framework in Hong Kong

A three-tier regulatory framework exists in Hong Kong. The first tier of regulation, being the Hong Kong Government, has the ultimate responsibility for policy and legislative matters. The second tier and the third tier of regulation rested with the SFC and the HKEx, which are further described in the following paragraphs:

#### *SFC*

Established in May 1989, the SFC is the statutory body governed by the SFO which came into effect on 1 April 2003. The SFC serves as the principal regulator of the securities and futures market in Hong Kong. Furthermore, the SFC also has a role of monitoring listing applications and listed companies in Hong Kong. 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 the operation and functioning of the securities and futures industry;
- to provide protection for members of the public investing in or holding financial products;
- to minimise crime and misconduct in the securities and futures industry;
- to reduce systemic risks in the securities and futures industry; and
- to assist the Financial Secretary of the Hong Kong Government in maintaining the financial stability of Hong Kong by taking appropriate steps in relation to the securities and futures industries.

It is the task of the SFC to license any person carrying on a business of dealing in securities or futures like securities dealers, futures dealers, etc. Furthermore, it supervises and monitors the operations of the HKEx, which operates the Stock Exchange, the Futures Exchange and HKSCC. It also regulates listed companies by approving changes to the Listing Rules, monitoring announcements and vetting listing application materials under the dual filing regime, administering the Takeovers Code and considering requests for exemptions from prospectus requirements under the Companies Ordinance. The SFC can also enquire into listed companies suspected prejudicial or fraudulent transactions or provision of false or misleading information to the public. All members of the board of the SFC are appointed by the Chief Executive of Hong Kong.

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## SUMMARY OF LEGAL AND REGULATORY PROVISIONS

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The SFC is divided into four operational divisions in order to carry out its tasks:

- The Corporate Finance Division is responsible for the dual filing functions in relation to listing matters, administering the Takeovers Code, overseeing the Stock Exchange’s listing-related functions and responsibilities, and administering securities and company legislation relating to listed and unlisted companies.
- The Intermediaries and Investment Products Division is responsible for devising and administering licensing requirements for securities and futures, and leveraged foreign exchange trading intermediaries, supervising and monitoring intermediaries’ conduct and financial resources, and regulating the public marketing of investment products.
- The Enforcement Division is responsible for conducting market surveillance to identify market misconduct for further investigation, undertaking inquiry into alleged breaches of relevant ordinances and codes, including insider dealing and market manipulation, and instituting disciplinary procedures for misconduct by licensed intermediaries.
- The Supervision of Markets Division is responsible for supervising and monitoring activities of the exchanges and clearing houses, encouraging development of the securities and futures markets, promoting and developing self-regulation by market bodies.

### ***HKEx***

HKEx forms the third tier of the regulatory framework. HKEx is a recognised exchange controller under the SFO. It owns and operates the only stock and futures exchanges in Hong Kong, namely the Stock Exchange and the Futures Exchange, and their related clearing houses. The Stock Exchange has the following responsibilities:

- (a) to establish a stock exchange and to provide, regulate, and maintain facilities for conducting the business thereof;
- (b) to provide and operate a stock market and to promote and protect the interests of all members of the public having dealings on the Stock Exchange or with members thereof;
- (c) to provide and promote a fair, orderly, and efficient market for the trading of securities;
- (d) to establish and promulgate rules prescribing listing requirements for the quotation of securities on, and in respect of such other matters as are necessary or desirable for the proper and efficient operation and management of, the stock market;
- (e) to administer the Listing Rules fairly, in accordance with the general principles set out in the respective rules, and having regard to the best interest of each market and Hong Kong’s stock market as a whole and the public interest;
- (f) to ensure that persons administering the Listing Rules are independent, professional, and competent; and

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## SUMMARY OF LEGAL AND REGULATORY PROVISIONS

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- (g) to establish fair and appropriate procedural rules governing the manner in which it will discharge its listing-related functions and responsibilities.

The Futures Exchange has the role to operate and maintain a futures market and is the primary regulator for Futures Exchange Participants with respect to trading matters.

The role of the clearing houses of HKEx is to provide services for the clearing and settlement of securities, stock options and futures transactions on the Stock Exchange and the Futures Exchange.

### *Licensing regime*

The SFC operates a system of authorising corporations and individuals (through licenses) to act as financial intermediaries. The SFC issues licenses to corporations and individuals carrying on the following regulated activities:

- Type 1 — dealing in securities;
- Type 2 — dealing in futures contracts;
- Type 3 — leveraged foreign exchange trading;
- Type 4 — advising on securities;
- Type 5 — advising on futures contracts;
- Type 6 — advising on corporate finance;
- Type 7 — providing automated trading services;
- Type 8 — securities margin financing; and
- Type 9 — asset management.

Persons applying for licenses and registrations under the SFO, including Licensed Representatives and Responsible Officers, must satisfy and continue to satisfy after the grant of such licenses that they are fit and proper persons to be so licensed or registered. In simple terms, a fit and proper person means one who is financially sound, competent, honest, reputable and reliable. The Fit and Proper Guidelines are issued by the SFC, which outline a number of matters that the SFC shall have regarded to in assessing a person’s fitness and properness, which include his:

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

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

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## SUMMARY OF LEGAL AND REGULATORY PROVISIONS

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In addition, 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) 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 license 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 117 of the SFO or an application for the license, 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.

The SFC is obliged to refuse an application to be licensed if the applicant fails to satisfy the SFC that he is a fit and proper person to be licensed. The onus is on the applicant to make out a case that he is fit and proper to be licensed for the regulated activity.

Applications as Licensed Representatives must demonstrate the competence requirement under the SFO. An applicant has 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 an applicant’s competence to be licensed as a Licensed Representative, the SFC will have regard to the applicants’ academic qualification, industry qualification and regulatory knowledge.

Applications as Responsible Officers must demonstrate the requirements on both competence and sufficient authority. An applicant should possess appropriate ability, skills, knowledge and experience to properly manage and supervise the corporation’s business of regulated activities. Basically, the applicant has to fulfill certain requirements on academic/industry qualification, industry experience, management experience and regulatory knowledge.

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## SUMMARY OF LEGAL AND REGULATORY PROVISIONS

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If an applicant 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.

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

- (a) the amount of:
  - (i) HK\$100,000, where the licensed corporation is licensed for Type 4, Type 5 and Type 9 regulated activities in the case where the licensed corporation is subject to the licensing condition that it shall not hold client assets;
  - (ii) HK\$500,000, where the licensed corporation is licensed for Type 1 regulated activity in the case where the licensed corporation is an approved introducing agent or trader; or
  - (iii) HK\$3,000,000, where the licensed corporation is licensed in any other case for Type 1, Type 4, Type 5 and Type 9 regulated activities.
- (b) 5% of the aggregate of:
  - (i) the licensed corporation’s on-balance sheet liabilities including provisions made for liabilities already incurred or for contingent liabilities but excluding certain amounts stipulated in the definition of “adjusted liabilities” under the SFO;
  - (ii) the aggregate of the initial margin requirements in respect of outstanding futures contracts and outstanding options contracts held by the licensed corporation on behalf of its clients; and
  - (iii) the aggregate of the amounts of margin required to be deposited in respect of outstanding futures contracts and outstanding options contracts held by the licensed corporation on behalf of its clients, to the extent that such contracts are not subject to payment of initial margin requirements.

If a licensed corporation offers credit facilities its clients who would like to purchase securities on a margin basis, or provides financing for applications of shares in connection with IPOs, it must monitor its liquid capital level continuously in order to satisfy the above requirement under FRR. If the margin requirement of the licensed corporation increases, it is required to maintain additional liquid capital, which can be achieved by a direct injection of share capital, or by using a subordinated loan on a temporary basis and in a form agreed by the SFC to be treated as part of the capital base (with features such as last right of repayment).

### ***Anti-money laundering and terrorist financing***

[Licensed Corporation registered under the SFO] is required to comply with applicable anti-money laundering laws and regulations in Hong Kong, for example, the Drug Trafficking (Recovery of Proceeds) Ordinance (Cap.405), the Organized and Serious Crime Ordinance

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## SUMMARY OF LEGAL AND REGULATORY PROVISIONS

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(Cap.455), the United Nations (Anti-Terrorism Measures) Ordinance (Cap. 575) and the Prevention of Money Laundering and Terrorist Financing Guidance Note issued by the SFC. These laws and regulations require the Group, among other things, to adopt and enforce “know your clients” policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities.

The Group has established a number of policies and procedures for the prevention of money laundering and terrorist financing. Before opening client accounts, the customer service staff is required to check against the AML list and the list of Politically-Exposed Persons (“PEPs”) before accepting a new client. A “Risk Screen Report” is generated showing the results of the PEPs and the exposure of the client against a database provided by an external service provider and there is documented evidence of checking by the customer service team of client’s identity against the AML list. Customer due diligence for individual and corporate clients are also conducted to enable the Group to establish the true and full identity of each client. Ongoing monitoring for funds deposited into clients’ accounts are conducted by requiring clients to provide evidence to show that monies have been deposited into their accounts; failing which, the Group will temporarily treat the deposits as unidentified deposits and record the same in “Abnormal Deposit Report” until evidence can be provided to the Group to show that the monies were deposited by the clients.

### REGULATORY FRAMEWORKS IN US AND SINGAPORE

#### Regulatory framework in US

The regulatory framework for the U.S. futures exchanges can be traced back to 1922 when the Grain Futures Act was enacted which is based on the interstate commerce clause and bans off-contract-market futures trading rather than taxing it. The Grain Futures Administration is formed as an agency of the U.S. Department of Agriculture to administer the Grain Futures Act. The Grain Futures Act also creates the Grain Futures Commission, which consists of the Secretary of Agriculture, the Secretary of Commerce, and the Attorney General. The authority to suspend or revoke a contract market designation is vested in the Grain Futures Commission. The Commodity Exchange Act was subsequently imposed in 1936 to replace the Grain Futures Act. The Grain Futures Commission became the Commodity Exchange Commission and continues to consist of the Secretary of Agriculture, the Secretary of Commerce, and the Attorney General. The Commodity Exchange Act granted the Commodity Exchange Commission the authority to establish Federal speculative position limits, but not the authority to require exchanges to set their own speculative position limits. The Commodity Exchange Act, among other things, also required futures commission merchants to segregate client funds that were deposited for purposes of margin, prohibits fictitious and fraudulent transactions such as wash sales and accommodation trades, and banned all commodity option trading. The option ban remained in effect until 1981.

The Commodity Exchange Act was amended in 1968 to institute minimum net financial requirements for futures commission merchants. The amendment also enhanced the enforcement provisions of the act in various ways, including enhanced reporting requirements, increases in criminal penalties for manipulation and other violations of the act, and a provision allowing for the suspension of contract market designation of any board of trade that fails to enforce its own rules. CFTC’s mandate has been renewed and expanded several times, most recently by the Commodity Futures Modernisation Act of 2000.

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## SUMMARY OF LEGAL AND REGULATORY PROVISIONS

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### **Regulatory framework in Singapore**

No statutory regulation of the stock exchange of Singapore (now SGX) until in 1973 when Securities Industry Act was enacted. In 1986, the government revised the Securities Industry Act and enacted the Futures Trading Act. From that point, there was a general tightening up of securities regulation up to the Asian financial crisis in 1997. Since then, there have been changes to the regulatory balance of the market, culminating in the enactment in 2001 of the Securities and Futures Act (“SFA”), which came into force in various stages in 2002.

Under the present regulatory scheme, the Monetary Authority of Singapore (“MAS”) regulates the overall financial sector, including the securities and futures industries, although the day to day supervision of the market is left with SGX. The internal management of SGX is regulated by its memorandum and articles of association, while trading in securities is regulated by the SGX Rules.

In addition to the Securities and Futures Act, listed companies in Singapore are also subject to the Companies Act, which makes provision for matters such as the formation of audit committees for publicly listed companies. The securities industry is also regulated by subsidiary legislations, the Companies Regulations and Securities and Futures Regulations, which are promulgated under the Companies Acts and the SFA respectively. In practice, other non-statutory rules also apply, such as the Singapore Code on Take-overs and Mergers, as well as the Code on Collective Investment Schemes.

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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### HISTORY AND DEVELOPMENT

Bright Smart Securities and Bright Smart Futures serve as the securities brokerage arm and futures and options brokerage arm of the Group respectively. The Group has now extended its service coverage from securities, futures and options brokerage in Hong Kong to a wide range of financial products traded in the US and Singapore exchanges. The Group also offers credit facilities to its clients who would like to purchase securities on a margin basis.

The commencement of the securities brokerage business could be traced back to 1992 when Mr. Yip established a company called Bright Smart Investment Limited which was incorporated in June 1992 and was renamed as Bright Smart Securities Company Limited (“BSSC”) in January 1996. On 8 December 1998, BSSC sold to Bright Smart Securities one fully paid “A” share of HK\$1.00 in the capital of the Stock Exchange at a consideration of HK\$4.5 million, enabling Bright Smart Securities to carry out securities trading activities on the Stock Exchange. Since then, BSSC has ceased to carry on the securities brokerage business and was renamed as Golden Jumbo Investment Limited in May 1999.

Bright Smart Securities was incorporated in August 1998 under the name of Super International Company Limited which was changed to its present name of Bright Smart Securities International (H.K.) Limited in October 1998. Immediately prior to the Reorganisation, Bright Smart Securities was beneficially owned as to 100% by Mr. Yip.

Since April 1999, Bright Smart Securities has been a dealer registered under the then Securities Ordinance. Prior to the merger of the Stock Exchange and the Futures Exchange in March 2000 (the “Merger”), the Group provided securities brokerage service to its clients through the holding of share(s) of the Stock Exchange, which enabled Bright Smart Securities to conduct trading activities on the Stock Exchange. Immediately prior to the Merger, Bright Smart Securities held an “A” share of the Stock Exchange. Following the Merger, holders of share(s) of the Stock Exchange turned into holders of Stock Exchange Trading Right(s), and Bright Smart Securities became a Stock Exchange Participant eligible to conduct trading activities on the Stock Exchange.

Bright Smart Futures was incorporated in November 1995 and registered under the present name of Bright Smart Futures & Commodities Company Limited. Immediately prior to the Reorganisation, Bright Smart Futures was effectively wholly-owned by Mr. Yip.

On 1 April 2003, when the Hong Kong Government abolished the minimum brokerage commission, the Group immediately reduced its brokerage commission rate, laying the groundwork for an increasing market share afterwards. At that time, the Group’s brokerage commission was reduced from 0.25% with a minimum charge of HK\$100, to 0.05% with a minimum charge of HK\$50. Since then, the Group has been carrying out extensive sales and marketing activities which [include holding investment seminars and placing advertisements through various media] to build up its market position and mainly targeted at retail clients. Following these extensive sales and marketing activities, the Group’s client base has an overall increase. In January 2005, the introduction of online securities trading services allowed the Group to charge a brokerage commission as low as 0.068% with a minimum charge of HK\$50. It not only enabled the clients to reduce their own cost of investments, but also assisted the Group in increasing its market share of its brokerage business. Effective from 1 June 2008 and as at the Latest Practicable Date, the Group charged a brokerage commission rate of 0.0668% (with a minimum charge of HK\$50) based on transaction value for online trading. For individual clients with high trading volume, various schemes of brokerage commission rebate rate are available, where effective brokerage

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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commission rate can be as low as 0.01% for monthly transaction amounts (in monetary terms) above certain threshold. The online futures and options trading services were introduced by the Group in October 2007. Furthermore, the Group also provides IPO financings at competitive interest rates in order to expand its market share.

To meet with the fast growing businesses, Bright Smart Securities and Bright Smart Futures have been strengthening their capital bases from time to time. Share capital of Bright Smart Securities and Bright Smart Futures increased from HK\$15 million and HK\$15 million respectively as at 31 March 2003 to HK\$110 million and HK\$20 million respectively as at 31 March 2010.

The Group started to provide an online trading platform for its securities trading activities since January 2005, and its futures and options trading activities since October 2007. Online trading allows clients of the Group to conduct securities investment transactions over the internet. With the online trading business, clients can place, execute or cancel orders online. Online trading services provided by the Group is secure and convenient as it involves minimum human control over the transactions. Clients’ trading instructions are sent directly to an automated channel of the HKEx for matching. Brokerage commission income is recognised on a trade date basis when the relevant transactions are executed. With the improved online trading technology, the online trading platform not only enables speedy order placing and [secure trading], but also enables clients to conduct their own transactions without the involvement of the Group’s dealers, which greatly reduced the operation costs of the Group, and at the same time boosted the aggregate transaction amounts. With reduced operation costs as a result of the online trading platform, the Group is able to charge a low brokerage commission rate to its clients.

Provision of electronic online trading is generally (including placing of an order, amending, canceling and execution of such order) regulated by the SFO. However, the Group provides trading services which merely route the trade orders placed by its clients to the Stock Exchange for execution via electronic means. On the basis that the transaction orders between customers cannot be automatically matched within the electronic facilities of the Group and that all such orders have to be executed through the [Stock Exchange], the Directors confirmed that the Group only provides electronic order routing facilities which does not fall into the definition of automated trading services (“ATS” as defined in Schedule 5 to the SFO). According to frequently asked questions posted by the SFC on 23 June 2004, the provision of order routing services would not generally be regarded as Type 7 (providing automated trading services) regulated activity and accordingly, the Group is not required to obtain any such license for its online securities trading. Based on the confirmation by the Directors that the Group only provides order routing services and the provision of such routing services do not fall into the definition of ATS as defined in Schedule 5 of the SFO, the legal adviser of the Company on Hong Kong law advises that the provision of such routing services by the Group would not require to be licensed for Type 7 regulated activity (providing automated trading services).

The Group recognises the importance of safeguarding its clients’ money and takes all reasonable steps to ensure that all transactions are secure. Orders placed online are processed automatically, including control procedures such as checking of client’s fund and securities on hand with no dealer’s handling are normally required. The Group only allows its licensed persons (as defined under the SFO) to handle follow up services in respect of online trading (e.g. when certain orders exceed limits of a particular account, or when some wrong orders are placed which are being “rejected” by the Group,

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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etc). All the staff of the Group currently performing regulated activities, including staff members in the Dealing Department handling clients’ orders, are properly registered under SFO as either Licensed Representatives or Responsible Officers.

In February 2009, Bright Smart Securities entered into an agreement with the computer system vendor, pursuant to which Bright Smart Securities is granted a licence to develop, manage and maintain the online trading system by its own information technology (“IT”) team. The present head of Information Technology Department of the Group, Wong Wing Man, who is also one of the original developers of the Group’s securities trading system, was hired in March 2009 and was then responsible for all computer systems and software maintenance and upgrading, as well as the formulation of contingency backup plans for the Group’s computer system. A contingent site was also set up in Wan Chai in 2008, which served as a backup office for the Group in case the headquarter of the Group in Central is not operational due to any incident. According to the Group’s records, except for two system failures occurred in November 2007 and November 2008 as a result of substantial number of system login requests and a problem within a software program of the trading system respectively which were later rectified, as confirmed by the Directors, there were no other system breakdown or disruptions to the computer systems used by Group including but not limited to computer viruses, hackers, other disruptive actions by visitors or other internet users during the Track Record Period, which had a material adverse effect on the business and/or operations of the Group. The Directors confirmed that the two system failures as mentioned above caused temporary delays in the online trading system. The claims involved in the system failures in November 2007 and November 2008 amounted to approximately HK\$6,000 and HK\$4,000 respectively, which the Directors considered to be not material to the Group. The Directors advised that there were no further claims in relation to the above two system failures after November 2008 up to the Latest Practicable Date. For measures implemented by the Group to prevent computer system breakdown in future, please refer to the sub-section headed “Information technology related controls” under the section headed “Business” in this document.

Leveraged on its strengths of low brokerage commission rate and quality services, the Group’s businesses are in general expanding very fast with increasing number of clients and recognised brand name. For each of the three years ended 31 March 2008, 2009 and 2010, the Group attracted 4,071, 2,839 and 4,858 new securities, futures and options clients respectively, which represented a growth in overall client base of approximately 68.0%, 29.4% and 40.7% respectively. In addition, according to the information from HKEx, Bright Smart Securities has been qualified as a Constituency B Exchange Participant since the first half of 2006, which represented the group of Exchange Participants ranked fifteenth to sixty-fifth in terms of market share, with the market share of Bright Smart Securities increasing in general since then.

For the three years ended 31 March 2008, 2009 and 2010, the respective value of transactions of Bright Smart Securities accounted for approximately 0.909%, 1.074% and 1.091% of the market turnover of the Stock Exchange’s securities trading as announced by the Stock Exchange.

In 2007, the Group rented from a company wholly-owned by Mr. Yip the 10th floor of Wing On House located at Central as its head office, with the gross floor area of approximately 15,946 square feet.

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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The Group has also been selected as a caring company by the Hong Kong Council of Social Service in 2010 in recognition of its community involvement and commitment of being a corporate citizen.

The Group established the Research Department and the Marketing Department in July 2007 and October 2006 respectively to strengthen the Group’s research capability and to improve the Group’s marketing ability. In 2008, in order to further strengthen the Group’s brand name and image, the Group recruited Kwok Sze Chi (“Mr. Kwok”), an experienced stock analyst, as the marketing director of the Group. To enhance the quality of service and reinforce the communication with clients, regular investment seminars are held by the Group and led by Mr. Kwok to provide clients with the latest stock market analysis.

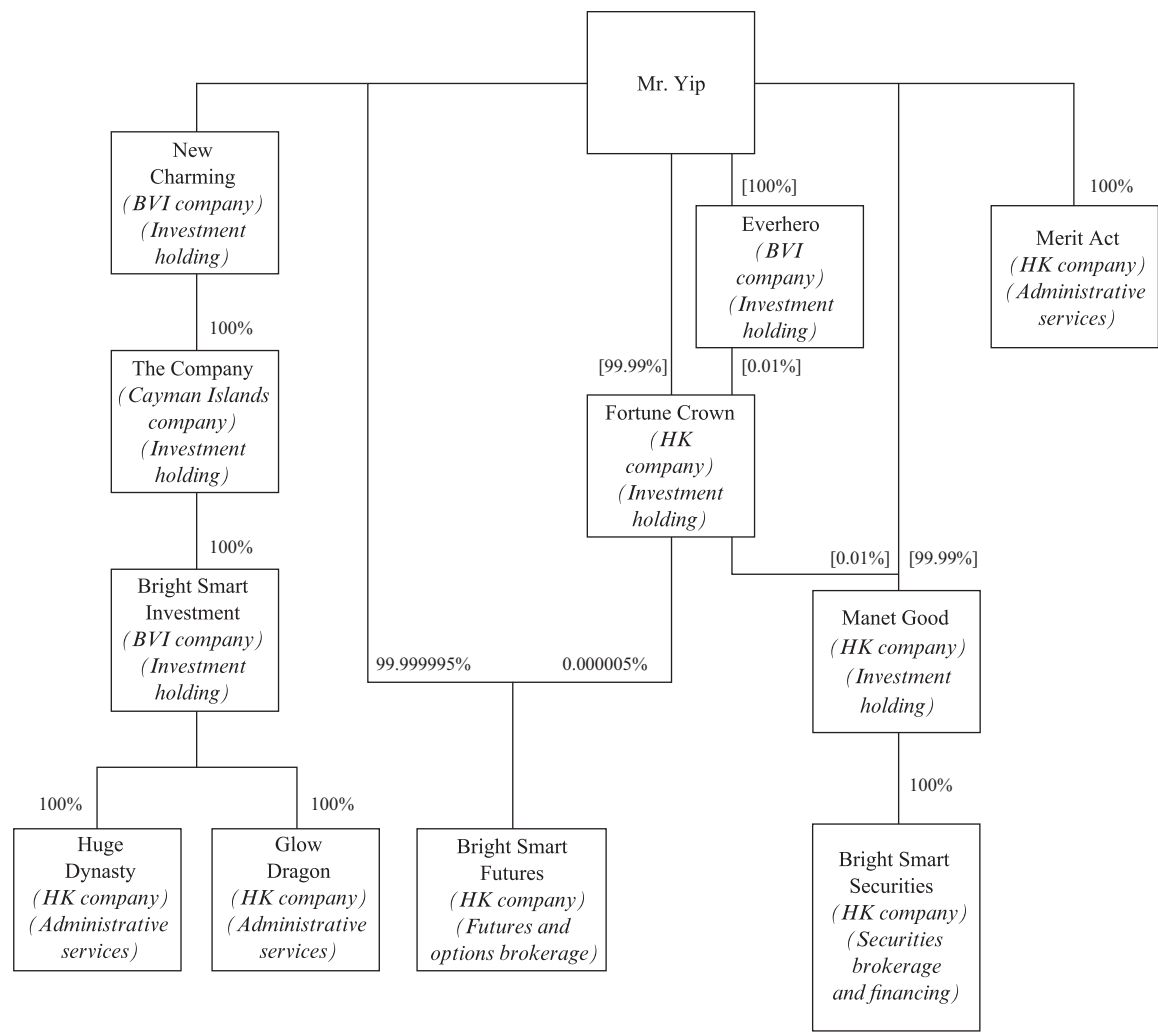
In March 2009, the Group cooperated with a telecommunication service provider to provide 3rd generation mobile streaming real-time stock quotes and trading service, thereby providing an additional means for the Group’s clients to monitor market performance and to conduct trading activities. As an additional service to the Group’s clients, in March 2009, the global futures trading service was introduced to allow clients to get access to futures products traded on the exchange in the US and the Group further extended its brokerage services to futures products traded on the exchange in Singapore in September 2009.

The Group opened its first branch office in Tsuen Wan on 28 December 2009, and subsequently opened [nine] additional branches as at the Latest Practicable Date, for the purpose of attracting new clients, and to facilitate and provide better customer services to its clients. The capital expenditure used in the establishment of the ten existing branches was funded by the Group’s internal resources and the future working capital requirement to support the ten existing branches will also be funded by the Group’s internal resources.

HISTORY, REORGANISATION AND GROUP STRUCTURE

REORGANISATION

Set out below is the group structure immediately prior to the Reorganisation:



STRATEGIC INVESTMENTS FROM BOCOM INTERNATIONAL HOLDINGS

BOCOM International Holdings is a wholly-owned subsidiary and investment banking division of Bank of Communications Co., Ltd, which was listed on the Stock Exchange in June 2005 and on the Shanghai Stock Exchange in May 2007. Leveraging on the brand name as well as the experience of Bank of Communications Co., Ltd. in the financial services sector, with BOCOM International Holdings being a strategic investor, the Directors believe that the Group will be in a better position to promote its brand name and to build up its position as a leading online securities brokerage house in Hong Kong.

On 25 November 2009, Mr. Yip and BOCOM International Holdings entered into the Call Option Agreement, whereby Mr. Yip granted the Option to BOCOM International Holdings, representing the right to require Mr. Yip to sell all (but not part only) of the Option Shares to BOCOM International

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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Holdings at the Exercise Price at any time during the Option Period. The consideration of the Option paid by BOCOM International Holdings to Mr. Yip was HK\$100. The exercise of the Option would lead to Mr. Yip transferring to BOCOM International Holdings the Option Shares.

BOCOM International Holdings is of the opinion that the Group is one of the well-established brokerage houses that primarily focuses on providing online brokerage services. BOCOM International Holdings as a strategic investor recognised this future potential and decided to complete this investment by exercising the Option.

Pursuant to the Call Option Agreement, BOCOM International Holdings exercised the Option to require Mr. Yip to transfer the Options Shares to BOCOM International Holdings on 2 July 2010. On the same date, Mr. Yip procured New Charming to transfer 50,000,000 Shares from New Charming to BOCOM International Holdings for a consideration of HK\$11,403,857, which was fully settled by BOCOM International Holdings on 2 July 2010. The 50,000,000 Shares represent [●]% of the [●], 10% of the total issue share capital of the Company upon Completion and 7.5% of the total issue share capital of the Company immediately after the [●] (assuming the [●] is not exercised).

According to the Call Option Agreement, the exercise price shall be equivalent to 7.5% of the equity attributable to equity holders of the Company as at 31 March 2010 as shown in Hong Kong Accounts or HK\$20,000,000, whichever is lower. Based on the Accountants’ Report set out in Appendix I to this document, as the amount equivalent to 7.5% of the equity attributable to equity holders of the Company as at 31 March 2010 as shown in the said account is lower than HK\$20,000,000, the consideration shall be HK\$11,403,857. Based on the total Shares to be held by BOCOM International Holdings immediately following completion of the [●] of 50,000,000 Shares, the investment cost per Share for BOCOM International Holdings amounted to approximately HK\$0.23, which represents a [●]. [The [●] are of the view that BOCOM International Holdings assumed genuine investment risk under the Call Option Agreement upon payment of the exercise price of the Option Shares to Mr. Yip, the ultimate beneficial owner of New Charming.] When the Call Option Agreement was signed on 25 November 2009, BOCOM International Holdings and Mr. Yip agreed that the exercise price under the Call Option Agreement should be determined by reference to the equity attributable to equity holders of the Company as at 31 March 2010. BOCOM International Holdings assumed genuine investment risk under the Call Option Agreement upon payment of the exercise price of the Option Shares to Mr. Yip, the ultimate beneficial owner of New Charming on 2 July 2010, at which point of time the Company was not listed and the Option Shares were not tradable on the Stock Exchange. Hence the Exercise Price has a significant discount when compared [●], which is determined based on [●].

After Completion of the sale and purchase of the Option Shares, Mr. Yip shall procure (i) Bright Smart Securities and Bright Smart Futures to distribute no less than 80% of its profit available for distribution and (ii) each of the Group Companies (excluding Bright Smart Securities and Bright Smart Futures) to distribute 100% of its profit available for distribution for each financial year. Such provision will cease to operate upon [●]. [Upon [●], the shareholders’ rights of Mr. Yip and BOCOM International Holdings will not be different to those of the Shareholders.]

BOCOM International Holdings undertakes to Mr. Yip and the Company that it will not sell or transfer or otherwise dispose of, or create any encumbrances on, its legal or beneficial interest in any of the Option Shares during the period from completion of the sale and purchase of the Option Shares up to and including the date falling six months after the [●].

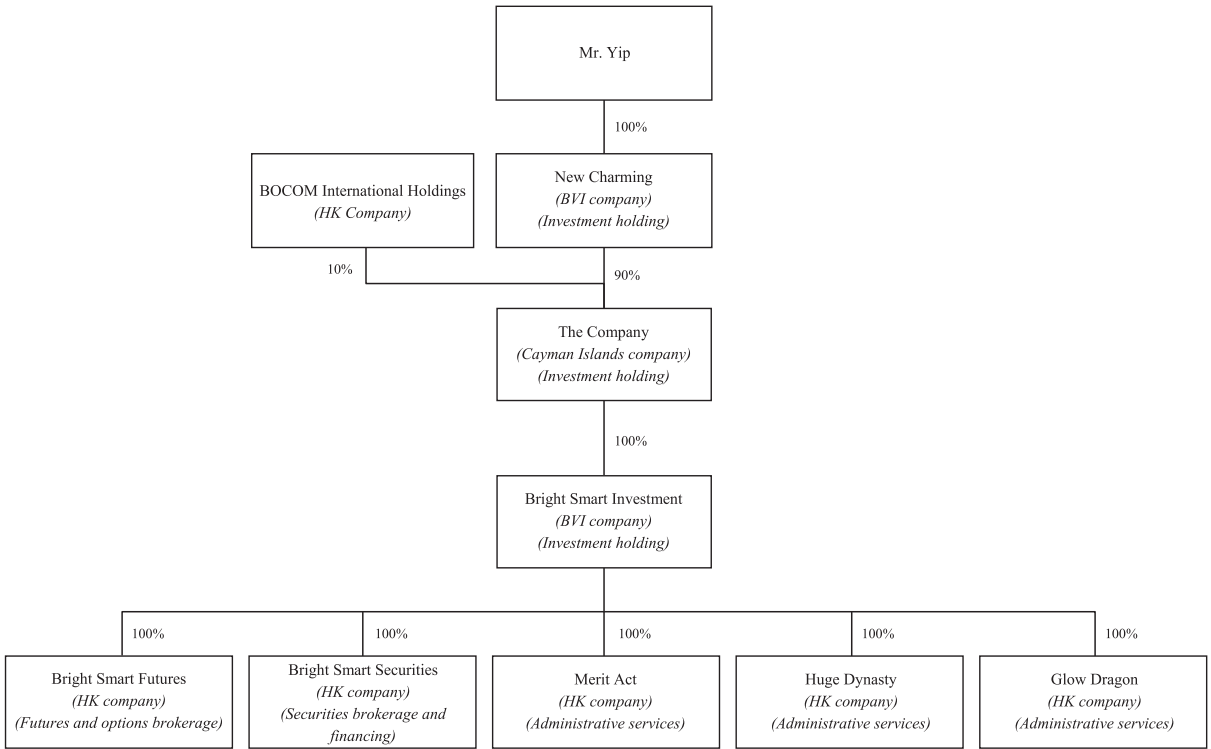
HISTORY, REORGANISATION AND GROUP STRUCTURE

[●] is a wholly-owned subsidiary of BOCOM International Holdings, which is a wholly-owned subsidiary of Bank of Communications Co., Ltd. Given the investment in the Company by BOCOM International Holdings, [●] does not satisfy the independence criteria applicable to [●] set out in [●] of the [●].

Bank of Communications Co., Ltd. Hong Kong Branch, being a branch of Bank of Communications Co., Ltd., provides general banking facilities to Bright Smart Securities for the sole purpose of financing the IPO financing business of Bright Smart Securities pursuant to a master staging facility letter (stockbroker/securities margin financier) dated 10 September 2008. [The maximum outstanding loan amount due from Bright Smart Securities to Bank of Communications Co., Ltd. Hong Kong Branch from [●] up to 31 July 2010 was approximately HK\$[2,273.3] million, and there was no outstanding loan amount due from Bright Smart Securities to Bank of Communications Co., Ltd. Hong Kong Branch as at 31 July 2010.]

Bank of Communications Co., Ltd. Hong Kong Branch also provides to [China Finance] general banking facilities in a maximum amount of approximately HK\$[250] million, and a revolving loan in a maximum amount of approximately HK\$[148] million for the purpose of shareholder’s capital injection or shareholder’s loan of Bright Smart Securities during which period Bright Smart Securities is conducting IPO financing. [The maximum outstanding loan amount due from [China Finance] to Bank of Communications Co., Ltd. Hong Kong Branch [●] up to 31 July 2010 was approximately HK\$[443.9] million.]

Set out below is the shareholding structure of the Group after completion of the Reorganisation and as at the Latest Practicable Date:



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## BUSINESS

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### BUSINESS ACTIVITIES

The Group is one of the well-established securities brokerage houses with low brokerage commission rates and primarily focuses on providing online brokerage services in Hong Kong. The Group has now extended its service coverage from securities, futures and options brokerage in Hong Kong to a wide range of financial products traded in the US and Singapore exchanges. Apart from its main business of securities, futures and options brokerage, the Group also provides margin and IPO financings to its clients in Hong Kong. The Group generates its turnover from (i) brokerage commission received from its clients in relation to its securities, futures and options brokerage business which was recognised on a trade date basis when relevant transactions are executed; and (ii) interest income generated from its margin and IPO financing to its clients.

Leveraging on its efficient and [secure] online trading system and low brokerage commission rates, the Group has successfully built up its client base rapidly and recorded significant growth in the number of new securities and futures trading clients during the Track Record Period. For each of the three years ended 31 March 2008, 2009 and 2010, Bright Smart Securities attracted [3,686], [2,063] and [3,682] new clients respectively, which represented a growth in client base of approximately [68.9]%, [23.7]% and [35.1]% respectively whereas Bright Smart Futures attracted [385], [776] and [1,176] new clients respectively, which represented a growth in client base of approximately [60.3]%, [83.1]% and [73.0]% respectively. As a whole, in the same period, the Group attracted [4,071], [2,839] and [4,858] new securities, futures and options clients respectively, which represented a growth in overall client base of approximately [68.0]%, [29.4]% and [40.1]% respectively. According to the information from HKEx, since the first half of 2006, Bright Smart Securities has been qualified as a Constituency B Exchange Participant, which represented the group of Exchange Participants ranked fifteenth to sixty-fifth in terms of market share, with the market share of Bright Smart Securities increasing in general since then.

During the Track Record Period, the Group did not have any proprietary trading business.

### Securities brokerage

The Group's business in securities brokerage is undertaken by Bright Smart Securities, which is a Stock Exchange Participant and a licensed corporation under the SFO to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities. Securities brokerage clients can place orders by phone or online. As at the Latest Practicable Date, Bright Smart Securities held 1 Stock Exchange Trading Right and 14.25 throttle rates subscribed from the Stock Exchange, which translated to a capacity of processing 14.25 transaction orders per second. Bright Smart Securities is also a participant of HKSCC and SEOCH.

The Group's online securities trading platform was launched in January 2005. As brokerage commission rates for securities transactions placed online are lower than those of telephone orders, the use of online trading platform [increased substantially since its operation.] For each of the three years ended 31 March 2008, 2009 and 2010, value of transactions with orders placed online accounted for approximately 75.0%, 85.6% and 87.6% respectively of Bright Smart Securities' total value of transactions. The Group generates turnover from its securities brokerage business from brokerage commission received from its clients which was recognised on a trade date basis when the relevant transactions are executed. For the three years ended 31 March 2008, 2009 and 2010, the respective value of transactions of Bright Smart Securities accounted for approximately 0.909%, 1.074% and 1.091% of the market turnover of the Stock Exchange's securities trading as announced by the Stock Exchange.

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## BUSINESS

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The Group has licensed customer service representatives to take telephone orders from its clients. Orders placed through telephone accounted for approximately 25.0%, 14.4% and 12.4% of Bright Smart Securities’ total value of transactions for each of the three years ended 31 March 2008, 2009 and 2010 respectively. Since orders placed online are processed automatically, including control procedures such as checking of client’s fund and securities on hand with no dealer’s handling are normally required, the Group is able to charge a lower brokerage commission rate for online trading. Since the abolishment of the minimum brokerage commission on 1 April 2003, the Group substantially reduced its brokerage commission rate in order to have a more competitive fee structure in the market. As at the Latest Practicable Date, the Group charged its Hong Kong clients a rate of 0.0668% (with a minimum charge of HK\$50) of transaction value for online securities trading, 0.085% (with a minimum charge of HK\$50) of transaction value for securities trading through telephone orders, and 0.15% (with a minimum charge of HK\$50) of transaction value for clients registered as online trading clients but placed orders through telephone. For individual clients with high trading volume, various schemes of brokerage commission rebate are available, where effective brokerage commission rate can be as low as 0.01% for monthly securities transaction amounts (in monetary terms) above certain threshold. Furthermore, the Group, as at the Latest Practicable Date, offered a customer loyalty program (the “Program”) to its securities trading clients who have online trading accounts with the Group (“Eligible Clients”). The maximum amount of brokerage commission rebate entitled by Eligible Clients is the total brokerage commission expense incurred by the Eligible Clients during the designated period as stated in the Program. [All transaction related levies and applicable stamp duties are borne by the clients of the Group.]

The Group will only take orders or instructions from clients who have signed the account opening forms with the Group and agreed that neither the Group nor any of its officers, employees or agents shall be liable to them for any loss or liability which they may incur (including losses and liabilities resulting from any transactions involving securities trading executed by any brokers and dealers) unless due to fraud or willful default on the part of the Group. The Group’s clients take full responsibility for all trading decisions in their securities trading accounts and the Group is responsible only for the execution, clearing and carrying out of transactions in such accounts.

## BUSINESS

Leveraging on its efficient and [secure] online trading system and low brokerage commission rate, the Group was able to build up its client base rapidly and recorded significant growth in the number of new securities trading clients during the Track Record Period. For each of the three years ended 31 March 2008, 2009 and 2010, Bright Smart Securities attracted [3,686], [2,063] and [3,682] new clients respectively, which represented a growth in client base of Bright Smart Securities of approximately [68.9]%, [23.7]% and [35.1]% respectively.

| Bright Smart Securities                                                                  | Movement of clients of Bright Smart Securities<br>For the year ended 31 March |        |        |
|------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|--------|--------|
|                                                                                          | 2008                                                                          | 2009   | 2010   |
| [Number of clients at the beginning of the<br>financial year. . . . .]                   | 5,348                                                                         | 8,708  | 10,494 |
| Number of new clients. . . . .                                                           | 3,686                                                                         | 2,063  | 3,682  |
| Number of client accounts closed . . . . .                                               | (326)                                                                         | (277)  | (368)  |
| Number of clients at the end of the<br>financial year. . . . .                           | 8,708                                                                         | 10,494 | 13,808 |
| Number of Active Securities Trading Clients<br>at the end of the financial year. . . . . | 5,933                                                                         | 5,380  | 7,736  |
| Net brokerage commission — securities brokerage<br>(HK\$ million) . . . . .              | 100.3                                                                         | 62.3   | 92.7   |

As at 31 March 2008, 2009 and 2010, Bright Smart Securities had approximately [5,933], [5,380] and [7,736] Active Securities Trading Clients respectively, whose accounts have recorded at least one trading activity in the past twelve months. These Active Securities Trading Clients comprise principally retail clients. Set out below is the breakdown of the Active Securities Trading Clients of Bright Smart Securities by ranges of brokerage commission income (net of rebate) as at 31 March 2008, 2009 and 2010:

| Bright Smart Securities                     | Number of Active Securities Trading Clients<br>As at 31 March |              |              |
|---------------------------------------------|---------------------------------------------------------------|--------------|--------------|
|                                             | 2008                                                          | 2009         | 2010         |
| Brokerage commission income (net of rebate) |                                                               |              |              |
| Less than or equal to HK\$300. . . . .      | 734                                                           | 1,476        | 2,010        |
| HK\$301 — HK\$500 . . . . .                 | 159                                                           | 405          | 575          |
| HK\$501 — HK\$1,000 . . . . .               | 230                                                           | 660          | 887          |
| HK\$1,001 — HK\$5,000. . . . .              | 542                                                           | 1,445        | 2,073        |
| HK\$5,001 — HK\$10,000 . . . . .            | 285                                                           | 514          | 741          |
| Over HK\$10,000. . . . .                    | 3,983                                                         | 880          | 1,450        |
|                                             | <u>5,933</u>                                                  | <u>5,380</u> | <u>7,736</u> |

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## BUSINESS

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During the six months from 1 October 2009 to 31 March 2010, the average utilisation rate of securities trading capacity of Bright Smart Securities in terms of throttle usage was approximately 5.3%, calculated based on approximately 12,270 orders a day placed by clients (which is the average number of orders placed per day during the period) divided by Bright Smart Securities’ trading capacity of approximately 230,850 orders a day (which is based on its 14.25 throttle rates and assuming 4.5 trading hours each day). Maximum utilisation of securities trading capacity usually occurs at peak hours when the trading session just starts. Depending on the business requirements of the Group in the future, the Directors confirmed that the Group is capable of increasing its throttle rates without substantial costs incurred. As at the Latest Practicable Date, the one-time charge by HKEx for each additional throttle rate was HK\$100,000.

Bright Smart Securities provides research to its clients in order to complement the Group’s securities brokerage business. The Group’s research team issues daily, weekly and monthly research reports, which provide the Group’s clients with relevant news summaries, commentaries on general market trends, stock picks, historical performance of particular securities as well as other relevant information such as lists of suspensions, resumptions and placing by listed companies in Hong Kong. The Group’s research team also organises weekly seminars for the public, and attends interviews in television financial programs and seminars organised by outside bodies.

The Group also provides other related services including real time stock quotes, application for IPO issues, collection of cash and scrip dividends, and other services such as subscriptions of rights/warrants, privatisations and open offers.

The largest securities brokerage client of Bright Smart Securities contributed approximately 4.9%, 3.3% and [1.7]% respectively of Bright Smart Securities’ brokerage commission income (net of rebate) for each of the three years ended 31 March 2008, 2009 and 2010. For the same years, the five largest securities brokerage clients of Bright Smart Securities in aggregate accounted for approximately 15.1%, 10.1% and [6.3]% respectively of Bright Smart Securities’ brokerage commission income (net of rebate).

For each of the three years ended 31 March 2008, 2009 and 2010, brokerage commission income (net of rebate) from securities brokerage business of Bright Smart Securities accounted for approximately 96.3%, 85.9% and 80.9% respectively of the Group’s total brokerage commission income (net of rebate).

### **Financing**

#### *Margin financing*

Credit facilities are offered by the Group to its clients who would like to purchase securities on a margin basis, which offers funding flexibility to the Group’s clients. All financing extended to the Group’s clients is secured by securities listed on the Stock Exchange and pledged to the Group. A list of securities acceptable as pledges to the Group and their respective margin ratios are regularly updated and communicated to clients through the website of the Group. Margin ratio for each of the acceptable securities is generally determined by the Responsible Officers with reference to those set by other financial institutions, and is reviewed on a regular basis and also on an urgent basis when qualities of particular securities deteriorate rapidly. As at the Latest Practicable Date, the Group lent between [45]%

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## BUSINESS

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and [75]% of the value of the HSI constituent stocks and between [10]% and [75]% of the value of approved non-HSI constituent stocks, depending on the quality of the individual stock. It is the Group’s policy not to provide financing for purchase of derivative products and stocks listed on the GEM.

For each of the three years ended 31 March 2008, 2009 and 2010, interest income derived from the Group’s margin financing business accounted for approximately 9.2%, 7.7% and 11.0% of the Group’s total turnover respectively.

As at 31 March 2010, the Group had approximately [1,844] Active Margin Clients whose margin securities trading accounts have recorded at least one transaction for purchase and/or sale of securities in the past twelve months.

Interest rates charged by the Group to margin clients during the Track Record Period ranged from 3.68% to 7.5% per annum. As at 31 March 2008, 2009 and 2010, the Group’s loans to margin clients amounted to approximately HK\$152.5 million, HK\$132.7 million and HK\$608.6 million respectively, and the total market value of securities pledged as collateral in respect of the loans to margin clients was approximately HK\$649.6 million, HK\$435.3 million and HK\$1,934.2 million respectively.

### *IPO financing*

The Group also provides financing for applications of shares in connection with IPOs. The Group conducts risk assessment before granting financing to clients. The Group first prepares a financial forecast to determine the maximum amount of financing to be granted for the purpose of ensuring [relevant financial regulations of the governing bodies will be complied with]. Upon the financial forecast is approved by the senior management of the Group, the Group then maintains a record to monitor the amount of financing granted to clients.

The Group provides competitive interest rate to its clients. Interest rates charged by the Group to IPO financing clients for each of the years ended 31 March 2008, 2009 and 2010 ranged from 3.6% to 6.7%, 2.0% to 3.68%, and 0.5% to 2.3% per annum respectively.

During the Track Record Period, Bright Smart Securities had entered into certain subordinated loan agreements with Manet Good, pursuant to which Manet Good agreed to grant revolving credit facilities to Bright Smart Securities which were unsecured and borne no interest. The loans have been used for the IPO financing business of the Group, and will be terminated upon [●]. Please also refer to the sub-section headed “Financial independence” under the section headed “Relationship with the Controlling Shareholder” for further background information on the subordinated loans from Manet Good.

For each of the three years ended 31 March 2008, 2009 and 2010, interest income derived from the Group’s IPO financing business accounted for approximately 31.8%, 0.2% and 7.3% of the Group’s total turnover respectively. While the Group’s main focus is on its brokerage business and margin financing business, the Group would still participate in IPO financing business after [●] even without the subordinated loans on the basis that part of the net proceeds from the [●] would be used to increase the share capital of Bright Smart Securities.

No provision for bad debt was recorded by the Group during the Track Record Period.

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## BUSINESS

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While licences under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) are generally required for the type of financing services provide by the Group, the Group is exempted from such requirement as Bright Smart Securities, the only operating subsidiary of the Company providing financing services to clients, is a corporation licensed to carry on a business in dealing in securities under Part V of the SFO who engages in securities margin financing in order to facilitate acquisitions or holdings of securities by the corporation for its client. For the requirements of paid-up share capital and liquid capital of Stock Exchange Participants, please refer to the sub-section headed “Stock Exchange Participants” under the section “Industry Overview”.

The Group has risk management policies with respect to financing in monitoring the Group’s credit risk, details of which are set out in the sub-section headed “Current internal control system” in this section.

The Group’s largest client for financing business contributed approximately 3.7%, 6.6% and [8.5]% respectively of the Group’s interest income from financing activities for each of the three years ended 31 March 2008, 2009 and 2010. For the same years, the Group’s five largest financing clients in aggregate accounted for approximately 15.0%, 26.4% and [19.6]% respectively of the Group’s interest income.

Details of the Group’s accounting policies on loans and receivables, and impairment allowance for bad and doubtful debts are set out in Notes 1(i)(i) and 1(j) to the Accountants’ Report contained in Appendix I to this document.

### **Futures and options brokerage**

#### *Futures and options in Hong Kong*

The Group’s business in futures and options brokerage is undertaken by Bright Smart Futures, which is a Future Exchange Participant and a licensed corporation under the SFO to carry on Type 2 (dealing in futures contracts) regulated activities. Bright Smart Futures currently holds 1 Futures Exchange Trading Right. Bright Smart Futures is also a participant of HKCC.

Bright Smart Futures provides brokerage services for futures and options traded on the Futures Exchange, such as HSI futures and options, and mini-HSI futures and options. The Group’s online trading platform for its futures and options trading activities was launched in October 2007, and futures and options brokerage clients are allowed to place orders through telephone or online, with brokerage commission rate for online trading relatively lower than that for trading through telephone orders as at the Latest Practicable Date. The Group will only take orders or instructions from clients who have signed the account opening forms with the Group and agreed that neither the Group nor any of its officers, employees or agents shall be liable to them for any loss or liability which they may incur (including losses and liabilities resulting from any transactions involving futures and options executed by any brokers and dealers) unless due to fraud or willful default on the part of the Group. The Group’s clients take full responsibility for all trading decisions in their futures and options trading accounts and the Group is responsible only for the execution, clearing and carrying out of transactions in such accounts.

## BUSINESS

For each of the three years ended 31 March 2008, 2009 and 2010, brokerage commission income (net of rebate) generated from futures and options orders placed online accounted for approximately 34.9%, 76.9% and [87.3]% respectively of Bright Smart Futures’ total brokerage commission income (net of rebate).

The Group generates turnover from its futures and options brokerage business from commission received from its clients when relevant transactions are executed. Set out below are the market shares of Bright Smart Futures in the trading of different derivative products according to the turnover ranking issued by the HKEx for the three years ended 31 March 2008, 2009 and 2010:

| Bright Smart Futures                                  | For the year ended 31 March |       |       |
|-------------------------------------------------------|-----------------------------|-------|-------|
|                                                       | 2008                        | 2009  | 2010  |
| HSI futures. . . . .                                  | 0.34%                       | 0.94% | 1.26% |
| HSI options (house and client account). . . . .       | 0.17%                       | 0.69% | 0.90% |
| H-shares index futures . . . . .                      | 0.11%                       | 0.21% | 0.20% |
| H-shares index options (house and client account) . . | 0.00%                       | 0.03% | 0.10% |

### *Global futures*

As an additional service to the Group’s clients, starting from March 2009, Bright Smart Futures extended its brokerage services to futures products including currency futures, index futures, metal and energy futures, agricultural and food futures and bond futures traded on exchanges in the US and further extended its service to index futures traded on Singapore Exchange Limited in September 2009 through two independent local brokers. [According to the websites of the two independent brokers, one of them is headquartered in Paris, and with offices in the Americas, Asia-Pacific and Europe-Middle East, offering access to more than 80 global exchanges.] [The other independent broker whom the Group has engaged, according to its own website, provides execution and clearing services for exchange-traded and over-the-counter derivative products as well as non-derivative foreign exchange products and securities in the cash market. It operates in 12 countries on more than 70 exchanges providing access to the largest and fastest growing financial markets in the world.]

For each of the three years ended 31 March 2008, 2009 and 2010, gross brokerage commission income generated from futures traded on the exchanges in the US and Singapore amounted to approximately HK\$Nil, HK\$0.1 million and HK\$4.5 million respectively, and represented approximately 0%, 1.0% and 17.0% respectively of Bright Smart Futures’ total gross brokerage commission income.

The Group places deposits and maintains trading accounts with the two independent local brokers and provide routing services to its clients in Hong Kong in respect of the above futures products traded on exchanges in the US and Singapore. Clients’ orders received in respect of products traded on the relevant US and Singapore exchanges are passed to the relevant brokers for their onward execution on the relevant US and Singapore exchanges. When the Group’s clients give instructions to the Group, it will relay the instructions to the two independent brokers, to deposit, purchase and/or sell overseas futures products and effect other transactions for their trading accounts. The independent brokers give the Group a right to access and use their data routing system to directly enter and transmit orders to buy or sell currency futures, index futures, metal and energy futures, agricultural and food futures and bond futures on electronic trading facilities as agreed to from time to time.

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## BUSINESS

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The Group pays to the two brokers on demand subscription or commission fees on purchases, sales and other transactions or services for the account, exchange fees, interest as well as other expenses in connection with the use of the designated electronic order entry and routing system to electronic trading facilities, tools and information, data and other software services. Under the respective contracts signed by the Group and each of the brokers, either party may terminate the terms of these contracts by giving the other party written prior notice of 30 days and 7 days in the other. The commission paid by the Group, including exchange fees, to the two independent brokers ranged from US\$1.57 per order to [US\$4.56 (full service based on self-execution and clearing) depending on the country where such order is executed]. The clients pay to the Group’s commission, charges, brokerage or other remuneration on all transactions from time to time, as well as all applicable levies imposed by any relevant clearing system or exchanges and all applicable stamp duties. The brokerage commission fees charged by the Group to its clients are US\$8.8 per order in respect of internet ordering per order and the Group will charge [US\$40] per order for phone ordering. All such brokerage commission, charges, levies and duties may be deducted by the Group from the clients’ accounts.

The Group will only execute orders on behalf of its clients who have signed the account opening forms with the Group and have agreed that neither the Group nor any of their respective officers, employees or agents shall be liable to them for any direct, indirect or consequential loss or liability which they may incur (including losses and liabilities resulting from transactions and/or orders executed by any brokers and dealers) unless due to fraud or willful default on the part of the Group. The Group’s clients take full responsibility for all trading decisions in their trading accounts and the two independent brokers are responsible only for the execution, clearing and carrying out of transactions in such accounts. Accordingly, in the absence of wilful defraud or fraud on the part of the Group, the Group shall not be liable to the client as a result of any action or omission taken by the Group or any of the person to whom the client authorises the Group to instruct including (but not limited to) executing brokers, agents, custodians, nominees, overseas brokers and dealers etc.

All transactions and/or orders made by the clients executed by any of the independent brokers are subject to relevant laws, constitution, rules and regulations of the relevant stock exchanges, futures exchanges, markets, or clearing houses in jurisdictions in which the brokers are dealing on the client’s behalf. The Directors confirmed that the Group has extended its services to futures products traded on the US and Singapore for the convenience of its customers who are interested in trading futures products on exchanges outside Hong Kong without having to open and maintain separate accounts with these brokers.

The Group acts as its clients’ agents and effect transactions on their behalf and executes trading orders with the brokers which provide brokerage services in respect of the futures products traded on exchanges in the US and Singapore. The trading and clearing of the futures contracts are carried out by the said brokers. The Company’s legal counsel advised that there is no requirement for obtaining overseas licenses for provision of agency services in Hong Kong in relation to such brokerage activities. The Directors confirm that, when performing such services neither the Group nor its authorised representative gives advises on futures contracts traded within or outside Hong Kong which contravenes with Type 2 regulated activities.

Trading activities carried on different exchanges will be subject to taxation in the jurisdiction in which such trading activities are conducted. Accordingly, the Group, being the client of the said brokers, will be subject to all applicable tax, duties and levy arising out of the transactions which the Group

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executes on behalf of its clients. However, the Group is authorised to deduct any such tax, duties, levy, charges arising out of or in connection with the transactions or futures contracts purchased by it on behalf of the clients. If the Group incurs any costs, claims, demands and losses in connection with anything done pursuant to any transaction entered into by the Group on behalf of the clients, the clients will indemnify the Group in full. The Directors confirmed that during the Track Record Period, the Group has paid and settled all payment requests, invoices and fees (including any applicable value added tax, stamp duties or other taxes as the case may be) charged by the two brokers and there was no outstanding amount due to the two brokers or demand for payment issued by the two brokers received by the Group as at 31 March 2010. To the best knowledge and belief of the Directors, the Group has not received any claim, notice or demand issued, and there has not been any action taken, by the relevant authority or government official in the US or the Singapore whereby the Company and/or its subsidiaries is/are liable or is/are sought to be made liable to make any payment of any form of taxation duties, rates, other impositions.

For each of the three years ended 31 March 2008, 2009 and 2010, Bright Smart Futures attracted [385], [776] and [1,176] new clients respectively, which represent a growth in client base of Bright Smart Futures of approximately [60.3]%, [83.1]% and [73.0]% respectively.

| Bright Smart Futures                                                                            | Movement of clients of Bright Smart Futures |       |       |
|-------------------------------------------------------------------------------------------------|---------------------------------------------|-------|-------|
|                                                                                                 | For the year ended 31 March                 |       |       |
|                                                                                                 | 2008                                        | 2009  | 2010  |
| [Number of clients at the beginning of the financial year. . . . .                              | 639                                         | 934   | 1,612 |
| Number of new clients. . . . .                                                                  | 385                                         | 776   | 1,176 |
| Number of client accounts closed . . . . .                                                      | (90)                                        | (98)  | (81)  |
| Number of clients at the end of the financial year. . . . .                                     | 934                                         | 1,612 | 2,707 |
| Number of Active Futures and Options Trading Clients at the end of the financial year . . . . . | 351                                         | 653   | 1,177 |
| Net brokerage commission — futures and options brokerage (HK\$ million) . . . . .               | 3.8                                         | 10.2  | 21.9  |

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As at 31 March 2008, 31 March 2009 and 31 March 2010, Bright Smart Futures had approximately [351], [653] and [1,177] Active Futures and Options Trading Clients respectively, whose accounts have recorded at least one transaction for open and/or close position of future and/or option trading contracts in the past twelve months. These Active Futures and Option Trading Clients comprise principally retail clients. Set out below is the breakdown of the Active Futures and Options Trading Clients of Bright Smart Futures by ranges of brokerage commission income (net of rebate) as at 31 March 2008, 2009 and 2010:

| Bright Smart Futures<br><br>Brokerage commission income net of rebate (in HK\$) | Number of Active Futures and Options Trading Clients |            |              |
|---------------------------------------------------------------------------------|------------------------------------------------------|------------|--------------|
|                                                                                 | As at 31 March                                       |            |              |
|                                                                                 | 2008                                                 | 2009       | 2010         |
| Less than or equal to 300 . . . . .                                             | 94                                                   | 102        | 157          |
| 301 — 500 . . . . .                                                             | 30                                                   | 37         | 45           |
| 501 — 1,000 . . . . .                                                           | 45                                                   | 63         | 108          |
| 1,001 — 5,000 . . . . .                                                         | 101                                                  | 209        | 360          |
| 5,001 — 10,000 . . . . .                                                        | 25                                                   | 91         | 147          |
| Over 10,000 . . . . .                                                           | 56                                                   | 151        | 360          |
|                                                                                 | <u>351</u>                                           | <u>653</u> | <u>1,177</u> |

For each of the three years ended 31 March 2008, 2009 and 2010, brokerage commission income (net of rebate) from futures and options brokerage of Bright Smart Futures contributed approximately 3.7%, 14.1% and 19.1% respectively of the Group’s total brokerage commission income (net of rebate).

The largest futures and options trading client of Bright Smart Futures contributed approximately 18.2%, 11.0% and [6.5]% respectively of the futures and options trading brokerage commission income (net of rebate) of Bright Smart Futures for each of the three years ended 31 March 2008, 2009 and 2010. For the same years, the five largest futures and options trading clients of Bright Smart Futures in aggregate accounted for approximately 43.9%, 29.8% and [20.9]% respectively of the futures and options trading brokerage commission income (net of rebate) of Bright Smart Futures.

### The Group’s top five largest clients

The Group’s clients comprise principally retail clients.

The largest client of the Group contributed approximately 2.8%, 2.6% and [1.7]% respectively of the Group’s turnover for each of the three years ended 31 March 2008, 2009 and 2010. For the same years, the five largest clients of the Group, which consist of both retail clients and corporate clients, in aggregate accounted for approximately 10.7%, 9.0% and [7.0]% respectively of the Group’s turnover. Due to the nature of the securities, futures and options brokerage businesses, the Group’s largest clients vary from year to year, depending on clients’ trading volume. The Group has no major suppliers due to the nature of the Group’s principal activities of securities, futures and options brokerage services.

For the year ended 31 March 2009, Madam Hung was one of the Group’s five largest clients. Income received from Madam Hung accounted for approximately [0.4]%, [1.8]% and [0.7]% of the Group’s turnover for each of the three years ended 31 March 2008, 2009 and 2010 respectively. Save as

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the aforesaid, to the knowledge of the Directors, none of the Directors, chief executives, or any person who, to the knowledge of the Directors, owns more than 5% of the issued share capital of the Company or any of its subsidiaries, or any of their respective Associates, had any interest in any of the Group’s five largest clients during the Track Record Period.

### Staff dealing

Staff members of the Group are allowed to perform securities trading through their securities trading accounts opened with the Group, provided that prior approvals from Responsible Officer are obtained for each of the transactions. Except for the transactions disclosed in Note 25(c)(i) of Appendix I in the document in relation to related party transactions, the revenue derived from brokerage commission income received from staff dealings through the Group during each of the three years ended 31 March 2008, 2009 and 2010 was approximately HK\$203,855, HK\$29,289 and HK\$8,977 respectively, which were charged at the same brokerage commission rates applicable to external clients of the Group and on normal commercial terms.

### COMPETITIVE ADVANTAGES

As there are many market players in the field of securities, futures and options trading in Hong Kong, the competition in the brokerage industry is extremely intense. Local as well as international brokerage houses and banks compete for both traditional telephone and online based clients within Hong Kong, being one of Asia’s leading financial markets. The number of Stock Exchange Participants and Futures Exchange Participants as at 31 March 2008, 2009 and 2010 are summarised in the table below:

|                                         | As at 31 March |            |            |
|-----------------------------------------|----------------|------------|------------|
|                                         | 2008           | 2009       | 2010       |
| Number of Stock Exchange Participants   |                |            |            |
| — Trading . . . . .                     | 445            | 452        | 468        |
| — Non-trading . . . . .                 | 36             | 37         | 31         |
|                                         | <u>481</u>     | <u>489</u> | <u>499</u> |
| Number of Futures Exchange Participants |                |            |            |
| — Trading . . . . .                     | 143            | 157        | 171        |
| — Non-trading . . . . .                 | —              | —          | —          |
|                                         | <u>143</u>     | <u>157</u> | <u>171</u> |

As at 31 March 2010, there were a total of 499 Stock Exchange Participants and 171 Futures Exchange Participants, 468 and 171 of which were Trading Participants while the remaining 31 and nil were Non-trading Participants in the industry of securities, futures and options trading respectively. As compared to 31 March 2009, the number of Stock Exchange Participants and Futures Exchange Participants as at 31 March 2010 increased by 10 (or approximately 2.0%) and 14 (or approximately 8.9%) respectively.

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Despite the keen competition in the securities, futures and options brokerage industry, the Directors believe that the competitive strengths of the Group will enable the Group to compete effectively. These include:

### **Long history of establishment with progressive business development**

The Group has established its securities, futures and options brokerage business since 1999 and its futures and options brokerage business since 1995. In respect of its business development, the Group introduced an online trading system for its securities trading in January 2005 and its futures and options trading in October 2007, with a view to allowing its clients to operate their trading activities interactively through the Group’s online trading system without reliance on the Group’s dealers. Moreover, in March 2009, the online global futures trading service was introduced to allow clients to get access to futures products traded on the exchanges in the US. The Group further extended its brokerage services to futures products traded on the exchange in Singapore in September 2009.

The Group opened its first branch office in Tsuen Wan on 28 December 2009, and subsequently opened [nine] additional branches as at the Latest Practicable Date, for the purpose of attracting new clients, and to facilitate and provide better customer services to its clients. The capital expenditure used in the establishment of the ten existing branches was funded by the Group’s internal resources and the future working capital requirement to support the ten existing branches will also be funded by the Group’s internal resources.

With a long history of establishment and a progressive business development, the Group has built an effective operating system. The Directors believe that the Group can offer quality services and tailored solutions to meet its clients’ needs in a constant changing financial market.

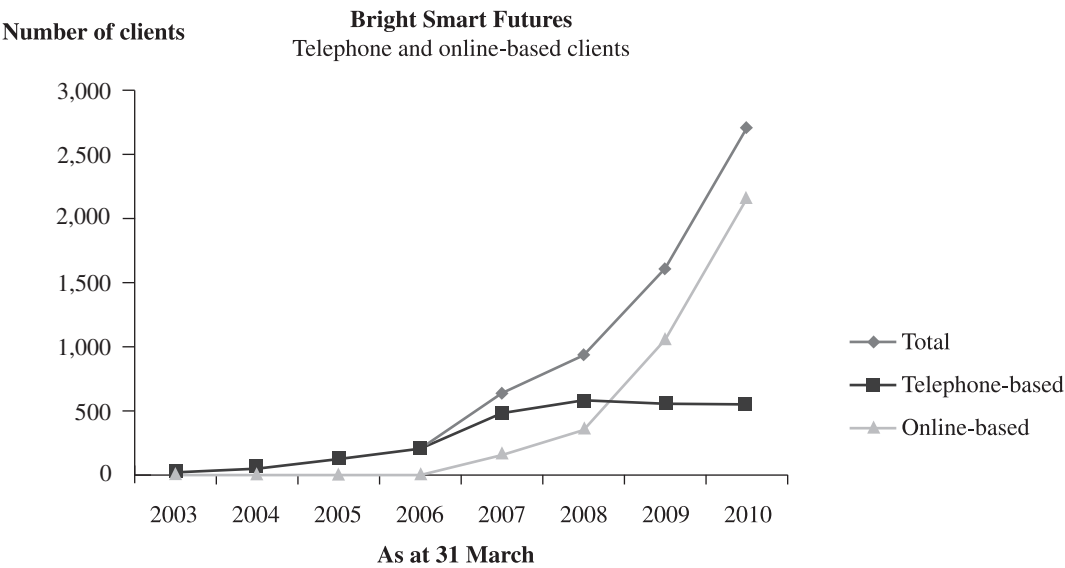
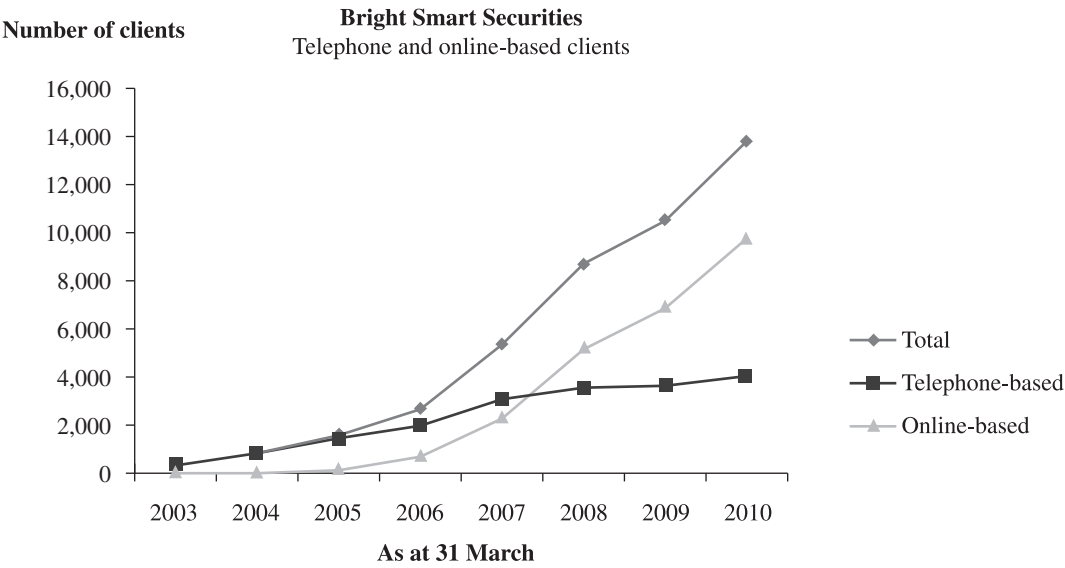
### **Recognised brand image and expanding client base**

The Group has always been positioning itself as a securities house with low brokerage commission, quality and prompt service, and reliable risk management system. To strengthen its market position and build up its market share, the Group has been undertaking extensive sales and marketing activities which include organising investment seminars and placing advertisements through various media. In addition, in 2008, the Group recruited Kwok Sze Chi as the marketing director of the Group who leads investment seminars held by the Group and offer commentaries on market trends and investment advice through various media such as television, newspapers and radio. Mr. Kwok has over [20] years of experience in securities and futures business, and is the Responsible Officer of Bright Smart Securities licensed under the SFO to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities. For each of the three years ended 31 March 2008, 2009 and 2010, advertising and promotion expenses were approximately HK\$4.8 million, HK\$9.0 million and HK\$3.6 million respectively.

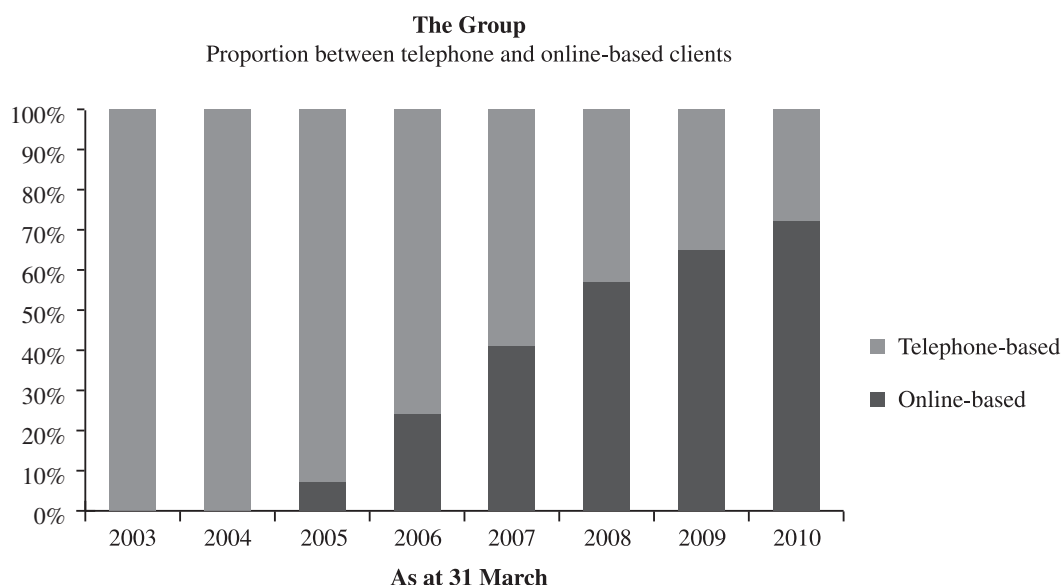
The number of clients of the Group has been increasing in the past few years. The Directors believe it was attributable to the effective sales and marketing strategies implemented by the Group as well as the introduction of an online trading platform for its securities trading in January 2005 and its futures and options trading in October 2007. As at 31 March 2008, 2009 and 2010, the number of online-based clients accounted for approximately 57.1%, 65.4%, and 72.2% of the total number of clients of the Group respectively, which indicates that the online trading platform has been playing a vital role in building up the client base of the Group. According to the “Cash Market Transaction

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Survey 2008/09” conducted by the HKEx for Hong Kong cash market, the number of brokers that offer online trading service to retail investors (who trade on their personal accounts) increased from 97 (or 25.7% of all surveyed brokers in the 2004/05 survey) to 173 (or approximately 42.2% of all surveyed brokers in the 2008/09 survey), indicating an increasing competition in relation to online trading. This also demonstrated the increased importance of online trading in Hong Kong.



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*Note:* Classification between telephone and online-based clients is based on their current selection registered with the Group. Telephone-based clients are not provided with online trading services. Online-based clients are allowed to trade through telephone orders, but will be charged with a higher brokerage commission rate. There is no duplication in the number of telephone and online-based clients.

With effective sales and marketing strategies, the Directors believe that Bright Smart Securities is able to enlarge its client base and increase its market share in past few years. For the three years ended 31 March 2008, 2009 and 2010, the respective value of transactions of Bright Smart Securities accounted for approximately 0.909%, 1.074% and 1.091% of the market turnover of the Stock Exchange’s securities trading as announced by the Stock Exchange.

As at 31 March 2010, the Group had approximately [16,515] client accounts. The Directors believe that this solid client base is built up by its effective business strategies as well as its dedication to provide quality services to meet clients’ needs.

### Competent team of professionals providing quality services

The Group has a Customer Service Department and a Marketing Department, which comprised [83] employees (including employees in branch office) and [4] employees respectively as at the Latest Practicable Date. 81 of the 83 staff members in the Customer Service Department were Licensed Representatives, with the remaining staff members still under training and were in the process of obtaining the status of Licensed Representatives as at the Latest Practicable Date. Unlicensed staff members are not allowed to engage in regulated activities. The Licensed Representatives in the Customer Service Department, led by two senior managers who have an average of seven years working experiences in the financial service industry, are principally responsible for accounts opening, [relationship management,] accounts enquiry, handling applications for IPOs and confirmations for other corporate actions such as rights issues and stock transfer, and handling complaints. The Marketing Department, supervised by Kwok Sze Chi who is an experienced stock analyst and the marketing director of the Group and has over 20 years of working experience in the financial service industry, is responsible for performing regular review of the market trend, organising events such as investment

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seminars for the public, placing advertisements through various local media including televisions, newspapers and radios, and publishing monthly newsletters to clients. During the Track Record Period, over 80 investment seminars were organised by the Group. Client’s referral is also one of the major reasons for the Group’s rapid growth in client base. For each of the three years ended 31 March 2008, 2009 and 2010, advertising and promotion expenses incurred by the Group amounted to approximately HK\$4.8 million, HK\$9.0 million and HK\$3.6 million respectively.

Furthermore, the Group has a team of support staff comprising personnel from Legal and Compliance, Settlement, Accounting, Research and Development, Information Technology, Administration and Human Resources Department. The Directors believe that the success of the Group under a competitive environment is attributed to a competent and dedicated team of professionals providing quality services to its clients.

### **Effective credit risk management**

Despite the risks arising from global market fluctuations, especially the financial tsunami in 2008, the Group has been effective in monitoring and controlling credit risks. During the Track Record Period, the Group has no bad debt provision for accounts receivable.

### **Experienced management**

The chairman of the Company and the executive Director, Mr. Yip, and the executive Directors, Chan Kai Fung and Kwok Sze Chi, have in-depth knowledge and over 20 years of experience in the stockbroking and financial services industry. With their extensive experience and market foresight, the Directors believe that the Group can adapt quickly to the buoyant market conditions and leverage on the Group’s competitive strengths to achieve sustainable growth and secure its market position. Please refer to the section headed “Directors, senior management and employees” of this document for further details of the experience of the executive Directors and the Group’s management team.

## **STRATEGIES**

### **Efficient and secure online trading platform**

Since the introduction of its securities online trading platform in January 2005 and futures and options online trading platform in October 2007, the Group has all along been focusing on developing its trading system capability and building its business and corporate image as one of the leading online trading service providers in Hong Kong with low brokerage commission rates. Online trading allows clients of the Group to conduct securities investment transactions over the internet. With the online trading business, clients can place, execute or cancel orders online. Clients trading instructions are sent directly to an automated channel of the HKEx for matching. Brokerage commission income is recognised on a trade date basis when the relevant transactions are executed.

There has been an overall increase in the Group’s client base since the adoption of this online trading business model. The Group’s online trading systems were developed by software development companies that allow its clients to trade online without the involvement of the Group’s dealers, and at the same time boosted the aggregate transaction amounts which is evidenced in the increase in turnover of the Group since the introduction of the securities online trading platform in January 2005, save for the financial year ended 31 March 2009, the decrease of which the Directors believe was attributable to

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the global financial tsunami in 2008. Bright Smart Securities has been expanding its online trading capacity in order to further support the increasing transaction volume. As at the Latest Practicable Date, Bright Smart Securities held 14.25 throttle rates subscribed from the Stock Exchange, which translated to a capacity of processing 14.25 transaction orders per second.

During the six months from 1 October 2009 to 31 March 2010, the average utilisation rate of Bright Smart Securities’ securities trading capacity in terms of throttle usage was approximately 5.3% calculated based on approximately 12,270 orders a day placed by clients (which was the average number of orders placed per day during the period) divided by Bright Smart Securities’ trading capacity of approximately 230,850 orders a day (which is based on its 14.25 throttle rates and assuming 4.5 trading hours). Maximum utilisation of securities trading capacity usually occurs at peak hours when the trading session just starts. Depending on the business requirements of the Group in the future, the Directors confirmed that the Group is capable of increasing its throttle rates without substantial costs incurred. As at the Latest Practicable Date, the one-time charge by HKEx for each additional throttle rate was HK\$100,000.

Provision of electronic online trading is generally (including placing of an order, amending, canceling and execution of such order) regulated by the SFO. However, the Group provides trading services which merely route the trade orders placed by its clients to the Stock Exchange for execution via electronic means. On the basis that the transaction orders between customers cannot be automatically matched within the electronic facilities of the Group and that all such orders have to be executed through the [Stock Exchange], the Directors confirmed that the Group only provides electronic order routing facilities which does not fall into the definition of automated trading services (“ATS” as defined in Schedule 5 to the SFO). According to frequently asked questions posted by the SFC on 23 June 2004, the provision of order routing services would not generally be regarded as Type 7 (providing automated trading services) regulated activity and accordingly, the Group is not required to obtain any such license for its online securities trading business. Based on the confirmation by the Directors that the Group only provides order routing services and the provision of such routing services does not fall into the definition of ATS as defined in Schedule 5 of the SFO, the legal adviser of the Company on Hong Kong law advises that the provision of such routing services by the Group would not require to be licensed for Type 7 regulated activity (providing automated trading services).

The Group recognises the importance of safeguarding its clients’ money and takes all reasonable steps to ensure that all transactions are secure. Orders placed online are processed automatically, including control procedures such as checking of client’s fund and securities on hand with no dealer’s handling are normally required. The Group only allows its licensed persons (as defined under the SFO) to handle follow up services in respect of online trading (e.g. when certain orders exceed limits of a particular account, or when some wrong orders are placed which are being “rejected” by the Group, etc). All the staff of the Group currently performing regulated activities, including staff members in the Dealing Department handling clients’ orders, are properly registered under the SFO as either Licensed Representatives or Responsible Officers.

As online trading contributed a [majority] portion of the Group’s total value of transactions, emphases are being placed on the security and the reliability of the online trading system, both in terms of the Group’s investments in its IT infrastructure and also its human resources dedicated for the operation and maintenance of the computer system. The online trading platform of the Group is connected to the Stock Exchange to receive real-time market data for up-to-date portfolio valuation and

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to enable real-time risk management, including monitoring of abnormal transactions by the computer system and the Group’s personnel. Systems resources and usage are logged and monitored on a real-time basis to ensure adequate allocation of system resources for the Group’s online trading operation. Backup systems and additional connections to the Stock Exchange’s trading platform are installed, and stress test are performed on a regular basis in order to ensure proper functioning of the online trading system in case of individual device failure. Data encryption, firewall and antivirus measures, together with daily checking to prevent unauthorised system changes, are in place to ensure data security. One of the original developers of the Group’s securities trading system. Wong Wing Man, with over 10 years of experience in trading system design and development, was also hired by the Group in March 2009 as the research and development manager to lead the Information Technology Department. Wong Wing Man, together with the other three staff members (as at 31 March 2010) in the Information Technology Department with an average of 7 years of working experience in information technology field, are responsible for ensuring smooth operation and maintenance of the computer system used by the Group. Two of the other three staff members mentioned above have completed tertiary education while the remaining staff member has received higher diploma in computer studies. Please refer to the section headed “Directors, senior management and employees“ of this document for further details of the experience and qualification of Wong Wing Man. Given that (i) except for the two system failures as mentioned below, the Directors considered that the online securities trading system remained stable as it has been running for a number of years since its introduction in January 2005; (ii) orders placed online are processed automatically with no dealer’s handling are normally required; (iii) apart from its existing staff members, the Group maintains its online futures and options trading system [with the assistance from external information technology service providers]; and (iv) the Directors confirmed that the Group was in full compliance with the applicable requirements in relation to online securities trading and online future and options trading services as stipulated in the various circulars issued by the SFC, the Directors are of the view that the Group has allocated sufficient human resources to the operation of its online trading system.

According to the Group’s records, except for two system failures occurred in November 2007 and November 2008 as a result of substantial number of system login requests and a problem within a software program of the trading system respectively which were later rectified, as confirmed by the Directors, there were no other system breakdown or disruptions to the computer systems used by Group including but not limited to computer viruses, hackers, other disruptive actions by visitors or other internet users during the Track Record Period, which had a material adverse effect on the business and/or operations of the Group. The Directors confirmed that the two system failures as mentioned above caused temporary delays in the online trading system of the Group. The claims involved in the system failures in November 2007 and November 2008 amounted to approximately HK\$6,000 and HK\$4,000 respectively, which the Directors considered to be not material to the Group. The Directors advised that there were no further claims in relation to the above two system failures after November 2008 up to the Latest Practicable Date.

### **Low brokerage commission rate and margin interest rate**

The Group is one of the well-established securities brokerage houses with low brokerage commission rates and primarily focuses on providing online brokerage services in Hong Kong. The fact that most of the transactions of the Group’s clients are performed online enables the Group to achieve a higher profit margin with a larger trading volume. With a relative stable cost structure during the Track Record Period, the Group was able to charge its clients lower brokerage commission rates and margin

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interest rates. Following the introduction of its online brokerage service with reduced brokerage commission, the client base and market share of the Group in terms of securities trading have been increasing in general. Various schemes of brokerage commission rebate are also available for individual clients with high trading volume, where the effective brokerage commission rate charged can be as low as 0.01% for monthly transaction amounts (in monetary terms) above certain threshold.

### Sales and marketing

Since the abolishment of the minimum brokerage commission on 1 April 2003, the Group has been placing emphasis on its sales and marketing activities with a view to build up its market share and to strengthen its market position. These sales and marketing activities include holding investment seminars and placing advertisements through various media. The Group has also recruited Kwok Sze Chi as the marketing director of the Group, who appears in the investment seminars of the Group and through various media to offer commentaries on market trends as well as to suggest investment ideas. The Directors are of the view that the above sales and marketing activities are of great importance in building up relationships with the Group’s existing clients and at the same time attracting new clients.

### REGULATIONS, LICENCES AND TRADING RIGHTS

The securities market in Hong Kong is highly regulated. The principal regulatory bodies governing the Group’s businesses are the SFC, the HKEx. The Group’s businesses are subject to a number of legislations and regulations and the respective rules of the HKEx and, upon [●], the Listing Rules.

In addition, certain members of the Group are required to be licensed with the SFC and apply as participants of the Stock Exchange or the Futures Exchange in order to carry on their activities. As at the Latest Practicable Date, the Group held the following licences/trading rights which are required to carry on the activities of the Group as described in this document:

| <u>Licence/certificate/<br/>participantship holder</u> | <u>Licence/certificate/participantship</u>                                                                                | <u>Date of issue/<br/>admission re-issue/renewal</u>      |
|--------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|
| Bright Smart Securities                                | Licence under the SFO to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities | 3 December 2004<br>(Type 1)<br>5 October 2009<br>(Type 4) |
|                                                        | Stock Exchange Trading Right Certificate                                                                                  | 6 March 2000                                              |
|                                                        | Stock Exchange Participant Certificate                                                                                    | 6 August 2007                                             |
|                                                        | Options Trading Exchange Participantship of Stock Exchange                                                                | 25 May 2010                                               |
|                                                        | HKSCC broker participantship                                                                                              | 6 May 1999                                                |
|                                                        | Direct Clearing Participantship of SEOCH                                                                                  | 25 May 2010                                               |
|                                                        |                                                                                                                           |                                                           |

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| <b><u>Licence/certificate/<br/>participantship holder</u></b> | <b><u>Licence/certificate/participantship</u></b>                                            | <b><u>Date of issue/<br/>admission re-issue/<br/>renewal</u></b> |
|---------------------------------------------------------------|----------------------------------------------------------------------------------------------|------------------------------------------------------------------|
| Bright Smart Futures                                          | Licence under the SFO to carry on Type 2 (dealing in futures contracts) regulated activities | 3 December 2004                                                  |
|                                                               | Futures Exchange Trading Right Certificate No. 0014                                          | 6 March 2000                                                     |
|                                                               | Futures Exchange Participant Certificate                                                     | 6 March 2000                                                     |
|                                                               | HKCC Participant Certificate                                                                 | 6 March 2000                                                     |

*[Note: There are no expiry dates for the above licences, certificates or participantships. The issuing authority (i.e. the SFC or the HKEx) reserves the right of revoking these licences, certificates or participantships under relevant rules and regulations.]*

Since its establishment, the Group has not experienced any difficulties in renewing any of its licences and participantship or has any of such licences and participantship been revoked. [The Directors confirm that the Group has obtained all requisite licences, permits and certificates necessary to conduct its operations. The Directors understand that the SFC may take disciplinary actions against the registered corporation under section 196 of the SFO for providing advice on futures products without proper license. With reference to the result of findings in the First Review and the Second Review (as defined in the sub-section headed “II. Review of internal control system” of this section), there was no request for the Group to be licensed for Type 5 (advising on futures contracts) regulated activities. In addition, the Directors confirmed that the Group has not received any objection or negative comment from the SFC when renewing any of its licences nor request for it to be licensed for Type 5 (advising on futures contracts) regulated activities since the date of commencement of the SFO on 1 April 2003. Although the Group did not hold a Type 5 (advising on futures contracts) License as at the Latest Practicable Date, it is licensed for Type 2 regulated activity (dealing in futures contracts) and since the regulated activities undertaken by the Group are wholly incidental to the Group’s futures dealing business, the Group is exempted from obtaining a license for Type 5 (advising on futures contracts) regulated activities.

Save as disclosed in the sub-sections below headed “Compliance with licensing requirements for regulated activities under the SFO” and “Disciplinary actions”, the Group has complied with all applicable laws and regulations in all jurisdictions where it has operation since its establishment.]

### **Staff performing regulated activities**

The Group only allows its licensed persons (as defined under the SFO) to handle follow up services in respect of online trading (e.g. when certain orders exceed limits of a particular account, or when some wrong orders are placed which are being “rejected” by the Group, etc). All the staff of the

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Group currently performing regulated activities, including staff members in the Dealing Department handling clients’ orders, are properly registered under SFO as either Licensed Representatives or Responsible Officers.

The Group does not allow unlicensed staff to conduct or perform any regulated activities on behalf of the Group or its clients until all required and necessary licences have been granted to them by the SFC. For newly hired staff whose licences are pending for the Group to make an application for registration or waiting for approval by the SFC, the Group has in place a policy to regulate their conduct and performance. These newly hired are usually given some training courses and orientation programs during the said period so that the newly hired staff will be familiar with the internal control and guideline that are in place. They do not have authority and are prohibited by the Group to deal with client’s account or perform any regulated activities before licences have been granted to them by the SFC.

### **COMPLIANCE WITH LICENSING REQUIREMENTS FOR REGULATED ACTIVITIES UNDER THE SFO**

Bright Smart Securities is and was at all material times a corporation duly licensed under section 116 of the SFO to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities as specified in the licence granted by the SFC. [Bright Smart Futures is and was at all material times a corporation duly licensed under section 116 of the SFO to carry on Type 2 (dealing in futures contracts) regulated activities as specified in the licence granted by the SFC.]

Since the commencement date of the Track Record Period (i.e. 1 April 2007) and up to 31 July 2007, Chan Wing Shing, Wilson (“Mr. Chan”), being the executive director of Bright Smart Securities had been approved by the SFC as a Responsible Officer of Bright Smart Securities at the material time in relation to Type 1 (dealing in securities) regulated activity. Mr. Chan, together with Lee Pak (“Mr. Lee”) who had also been approved by the SFC as a Responsible Officer of Bright Smart Securities at the material time in relation to Type 1 (dealing in securities) regulated activity, were the Responsible Officers of Bright Smart Securities pursuant to the requirements of the SFO.

Mr. Lee resigned from Bright Smart Securities on his own accord and left Bright Smart Securities with effect from 1 August 2007. The relevant document reporting the cessation of Mr. Lee to act as the Responsible Officer of Bright Smart Securities was duly filed by Bright Smart Securities with the SFC on 7 August 2007 (i.e. within 7 business days after his resignation pursuant to section 4(3) of the Securities and Futures (Licensing and Registration) Information Rules (Chapter 571S of the Laws of Hong Kong)).

Upon receiving the resignation notice from Mr. Lee, Bright Smart Securities searched for replacement and had submitted the application to the SFC to approve Tsui Kee Chow (“Mr. Tsui”) to be appointed as the Responsible Officer of Bright Smart Securities in relation to Type 1 (dealing in securities) regulated activity on 7 August 2007. Mr. Tsui was duly approved by the SFC as the Responsible Officer of Bright Smart Securities in relation to Type 1 (dealing in securities) regulated activity with effect from 21 August 2007. Mr. Lee, who previously resigned from Bright Smart Securities on 1 August 2007, resumed his role as a Responsible Officer of Bright Smart Securities on 28 September 2007.

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Based on the material facts above, it appears that during the period of 20 days from 1 August 2007 (i.e. the date when Mr. Lee left Bright Smart Securities) to 20 August 2007 (i.e. the day immediately before the date when Mr. Tsui was approved by the SFC as the Responsible Officer of Bright Smart Securities) (both days inclusive), only Mr. Chan was appointed and approved as the executive director and Responsible Officer of Bright Smart Securities following the resignation of Mr. Lee. Pursuant to section 125(1)(b) of the SFO, a licensed corporation shall not carry on any regulated activity for which it is licensed unless not less than 2 individuals shall be approved by the SFC as the Responsible Officers of the corporation in relation to the regulated activity. Following which, Bright Smart Securities did not comply with the requirements under section 125(1)(b) of the SFO during the period between 1 August 2007 to 20 August 2007.

The Group was given one week notice prior to the resignation of Mr. Lee, and upon which, the Group filed all necessary information regarding the cessation of employment of Mr. Lee. The directors of Bright Smart Securities expected that they would be able to find a replacement for Mr. Lee within a short period of time hence allowing the business of the Group to continue. The vacancy in one of the Responsible Officers of Bright Smart Securities for a short period of 20 days was beyond the control of Bright Smart Securities as it had taken time for Bright Smart Securities to look for replacement and for the SFC to approve Mr. Tsui to be the Responsible Officer of Bright Smart Securities. Information regarding the resignation of Mr. Lee and the appointment of Mr. Tsui was made known to the SFC. The Group had within the requisite period, notified and filed the relevant documents reporting the cessation of Mr. Lee to act as the Responsible Officer of Bright Smart Securities on 7 August 2007. Apart from receiving approval from the SFC in respect of the appointment of Mr. Tsui, the Directors confirmed that the Group has not received any comments from the SFC regarding the incident thereafter. Although Bright Smart Securities had conducted regulated activities during the period of 20 days where only one Responsible Officer was assuming his role in Bright Smart Securities, the Directors are of the view that the breach was not intentional and given such short notice, Bright Smart Securities had taken an effective and reasonable approach to look for a replacement. Accordingly, the non-compliance with the requirements under section 125(1)(b) of the SFO as aforesaid during the period of 20 days was indeed unfortunate; the resignation of Mr. Lee had been promptly reported to the SFC and the replacement of the requisite second Responsible Officer was made as soon as practicable in the circumstances.

After notifying SFC that Mr. Tsui was appointed as the Responsible Officer of Bright Smart Securities in relation to Type 1 regulated activity, SFC approved such appointment with effect from 21 August 2007. [The Directors confirmed that, shortly after this incident, the Group has a practice that at least 3 Responsible Officers be employed and maintained in the Group as far as practicable for conducting each type of the regulated activities for which it is licensed.] For most of the time after this incident, the Group has been able to maintain at least 3 Responsible Officers for each type of the regulated activities it is carrying on. Save as disclosed, the Directors confirmed that the Company has not received any comments from the SFC regarding the incident up to the Latest Practicable Date.

Section 125(3) of the SFO stipulates that if a licensed corporation contravenes this provision, without reasonable excuse, the licensed corporation is said to have committed an offence and is liable on conviction a fine at level 6 at the maximum penalty of HK\$100,000, and in the case of a continuing offence, to a further fine of \$2,000 for every day during which the offence continues, based on which the Group may be liable to a fine amounting to approximately HK\$140,000 in aggregate, excluding any interests payable (if applicable) to the SFC or other regulators as the case may be. [Each of the Controlling Shareholders has given indemnities on a joint and several basis against any claims, actions,

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demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered or incurred by any member of the Group as a result of or in connection with any non-compliance of the applicable laws, regulations, rules or code of conduct in relation to events occurred on or before the [●], including but not limited to the non-compliance of section 125(1)(b) of the SFO as mentioned above. Given that each of the Controlling Shareholders has given such indemnities, the Directors consider the possible maximum aggregated amount of penalty in relation to this incident is not material and will not cause any material adverse effect to the operation of the Group.

As at the Latest Practicable Date, the Responsible Officers of the Group’s Type 1 regulated activities are Kwok Sze Chi, Chan Wing Shing, Wilson and Lee Pak.

### DISCIPLINARY ACTIONS

The Group’s operations are subject to the securities laws, rules and regulations promulgated by the SFC and other relevant regulatory authorities of Hong Kong. For the purpose of carrying on its businesses, the Group’s operating subsidiaries, including Bright Smart Securities, Bright Smart Futures, their Responsible Officers and Licensed Representatives have to be licensed with the SFC unless specific exemption under the SFO is available. The SFC has in the past instituted disciplinary actions against Bright Smart Securities, its Responsible Officer and Mr. Yip for non-compliance with the relevant rules and regulations. The following summarises the public disciplinary actions taken by the regulatory authority against Bright Smart Securities, its Responsible Officer and Mr. Yip relating to activities undertaken by them during their employment with the Group up to the Latest Practicable Date. [Save as disclosed in this subsection, the Directors advised that there was no similar non-compliance subsequent to the incidents as detailed below up to the Latest Practicable Date.

#### I. Misleading statements in advertisements

The SFC found that Bright Smart Securities had from 17 March 2003 to 8 April 2003 published 13 statements in two newspapers containing false and misleading statements. These advertisements stated incorrectly that clients of Bright Smart Securities could make direct payment to the CCASS under HKSCC for settlement. Mr. Yip was at all material times the managing director of Bright Smart Securities and drafted all these advertisements.

Staff of both the SFC and the HKSCC informed Bright Smart Securities and Mr. Yip that the information was incorrect immediately after the first advertisement was noticed. CCASS does not receive direct payment from individual investors for settlement of their trades. CCASS only acts as a facilitator for handling trades settlement between brokers and investors. Monies are not directly paid to CCASS, and both the brokers and investor have to monitor the settlement by themselves.

Despite these warnings, Mr. Yip continued to cause Bright Smart Securities to publish the misleading statements. The SFC concluded that the fitness and properness of Bright Smart Securities and Mr. Yip had been called into question and was in breach of General Principle 2, paragraphs 2.3 and 12.1 of the Code of Conduct for Persons Licensed by or Registered with the SFC.

On 3 November 2004, the SFC reprimanded and fined Bright Smart Securities and Mr. Yip HK\$50,000 each for publishing false and misleading advertisements, despite repeated warnings from HKSCC and the SFC.

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Mr. Yip had no intention to commit such breach because he misunderstood the operation of CCASS. [Although Mr. Yip did not seek clarification with the SFC or CCASS during the period between 17 March 2003 and 8 April 2003, the Directors confirmed that the [management, including Mr. Yip], had conducted internal discussions and undertaken certain background studies in order to understand and clarify the operation of CCASS.] The breach of the rule in respect of publication of misleading statements by Mr. Yip was unintentional. The ignorance of the repeated warnings from the SFC and HKSCC was largely due to the unfamiliarity of the operation of CCASS by Mr. Yip which did not reflect negatively on Mr. Yip’s character. The Directors also confirmed that, after knowing and understanding the operational system of CCASS, Mr. Yip recognised that such non-compliance should not be repeated and the Group did not publish any such misleading statements thereafter. Mr. Yip rectified the mistake by introducing certain measure and internal control regarding the approval procedures of placing advertisement which were subsequently implemented by Bright Smart Securities in December 2004. After the incident, the Group had required all advertisement or other form of public statements issued by it to be sent to the SFC before publication. [Such practice was subsequently replaced by recruitment of an officer with previous working experience in relation to SFO in February 2005 to further enhance the monitoring of the related activities and ensuring the compliance of laws and regulations.]

In order to strengthen its internal control system, an Internal Audit Department has been established as at the Latest Practicable Date which reports independently and directly to the Audit Committee and investigates, and follows up irregularities identified. Any warnings received by the Group from the HKEx, SFC or other regulatory authorities will be reported directly to the Audit Committee which the Directors are of the view that such procedures will be able to prevent management over ride such warnings received. The Directors are of the view that employees are often the first to spot any irregularities with the operation of the Group. However, they may not express their concerns as they feel that speaking up would be disloyal to their colleagues or to the Group. The Company encourages and enables all employees of the Group to raise any concerns about the Group and to report any illegal/unlawful, unprocedural, unethical or wasteful conduct to the Internal Audit Department. Taking into account of the above measures, the Directors are of the view that the relevant internal control measures adopted by the Group are effective.

To familiarise the knowledge of the Directors with the Listing Rules and other relevant rules and regulations in relation to a listed company in Hong Kong, the Company’s legal adviser on Hong Kong laws had given a seminar to the Directors on 17 March 2010, regarding, among other things, the duties of a director of a company listed on the Stock Exchange and the relevant requirements of the Listing Rules as well as the disclosure obligations under the SFO. After which, each of the Directors was given a copy of the memorandum setting out post-[●] continuing obligations on a listed company arise under the relevant rules and regulations.

### **II. Unlicensed dealing**

On 21 October 2005, the SFC reprimanded Bright Smart Securities and its former Responsible Officer, Chan Pang (“Mr. Chan”) and fined each of them HK\$75,000 and HK\$60,000 respectively, for aiding and abetting unlicensed dealing, posting misleading information on the Group’s website and failing to supervise unlicensed customer service officers.

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Following an investigation, the SFC found that Mr. Chan had knowingly allowed an unlicensed member of staff to conduct securities dealing activities from 4 May 2004 to 6 August 2004. The subject member of staff and Mr. Chan were prosecuted by the SFC for unlicensed dealing and aiding and abetting of unlicensed dealing respectively on 5 May 2005. The Directors confirmed that the subject member of staff [had received a verbal warning from the Group] and had never conducted any regulated activities since SFC’s investigations. As at the Latest Practicable Date, the subject member of staff was working in the Settlement Department of Bright Smart Securities pursuant to the Group’s internal job function reallocation, performing job duties unrelated to any regulated activities. Based on the fact that (i) the subject member of staff was in a relatively junior position at that time, and (ii) the directors of Bright Smart Securities considered verbal warning was a sufficient and appropriate penalty, the Directors are of the view that the subject member of staff could remain with the Group.

Mr. Chan was also found to have approved misleading contents in a newsletter posted on the Group’s website in June 2004. The newsletter stated that one of the duties of the Group’s customer services officers was to provide investment analysis. It held customer service officers out as performing a service which falls within Type 4 (advising on securities) regulated activity when three of them were unlicensed. Mr. Chan was responsible for assigning job duties to the customer service officers but he failed to supervise their work. In July and August 2004, the three unlicensed officers recommended clients who called the Group’s customer service hotline to purchase specific stocks. Subsequent to the above incident, all of these unlicensed officers [had received verbal warnings from the Group] and two of them became Licensed Representatives of Bright Smart Securities in October 2006 and June 2007, respectively. The Directors confirmed that the remaining unlicensed officer had never conducted any regulated activities since receiving the SFC’s warning letter. As at the Latest Practicable Date, the remaining unlicensed officer was working in the Settlement Department of Bright Smart Securities pursuant to the Group’s internal job function reallocation, performing job duties unrelated to any regulated activities. Based on the fact that (i) the three officers were in relatively junior positions at that time, and (ii) the directors of Bright Smart Securities considered verbal warning was a sufficient and appropriate penalty, the Directors are of the view that the three officers could remain with the Group.

The SFC concluded that Bright Smart Securities and Mr. Chan had breached paragraph 4.3 and General Principles 2, 3 and 7 of the Code of Conduct, and their fitness and properness has been called into question. [The Directors are of the view that the non-compliance incident was mainly attributable to the personal conduct of the subject Responsible Officer], Mr. Chan, who has subsequently resigned from his position in the Group on 30 November 2005.

[In order to ensure that only Licensed Representatives are involved in the accounts opening process with the client, the handling staff member must fill in his/her own SFC licensing identification number on the client’s account opening documents which will later be checked by the Legal and Compliance Department.]

To mitigate the risk of unlicensed dealing, the Group has [issued an internal circular to its staff in September 2004 regarding prohibition of unlicensed staff to conduct any regulated activities]. It is the Group’s policy that the head of department of the business unit concerned and the Human Resources Department are responsible for informing the Legal and Compliance Department immediately of any new staff joining the Group so that applications for any required registrations can be processed promptly. Please refer to the sub-section headed “Regulations, Licensees and Trading Rights — Staff

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performing regulated activities” of this section for details. [In relation to order placing, only Licensed Representatives and Responsible Officers are given access to the trading system of the Group for the purpose of order placing, which effectively prevents unlicensed persons to place orders for clients.]

Save as disclosed above, the Directors, having made all relevant enquiries, are not aware of any other public disciplinary actions having been taken by the regulatory authorities against members of the Group or any of its Responsible Officers or other Licensed Representatives relating to activities undertaken by them during their employment with the Group up to the Latest Practicable Date and are not aware of any other disciplinary actions having been taken by the regulatory authorities against any of the executive Directors or senior management of the Group in respect of regulated activities undertaken by them other than during their services or employment with the Group up to the Latest Practicable Date.

### **IDENTIFIED HISTORICAL INTERNAL CONTROL WEAKNESSES AND SUBSEQUENT RECTIFICATIONS**

Under the Code of Conduct, a licensee should have internal control procedures and financial and operational capabilities which can be reasonably expected to protect its operations, clients and other licensed or registered persons from financial loss arising from theft, fraud and other dishonest acts, professional misconduct or omissions.

In general, “internal controls” represent the manner in which a business is structured and operated so that reasonable assurance is provided of:

- (a) the ability to carry on the business in an orderly and efficient manner;
- (b) the safeguarding of its and its clients’ assets;
- (c) the maintenance of proper records and the reliability of financial and other information used within and published by the business; and
- (d) the compliance with all applicable laws and regulatory requirements.

The following summarises the historical internal control weaknesses identified in the operating systems of Bright Smart Securities or Bright Smart Futures. The Group has taken proper action to rectify the internal control weaknesses that had been identified as set out in the sub-section headed “Identified historical internal control weaknesses and subsequent rectifications” of this section.

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### I. Review conducted by the SFC and findings

As licensed corporations under the SFO, Bright Smart Securities and Bright Smart Futures are regulated by the SFC in respect of the regulated activities conducted by them. As further detailed below, the SFC has previously conducted review on the business activities of Bright Smart Securities and Bright Smart Futures. Details of the SFC’s findings, which were all subsequently rectified, are disclosed below to facilitate understanding of the Group’s compliance history. The Directors, having made all relevant enquiries, are not aware of any particular incidents or irregularities that triggered the review. The Directors also confirmed that no review of business activities of Bright Smart Securities or Bright Smart Futures was conducted by the SFC since then.

#### *Bright Smart Securities*

Based on a letter from the SFC to Bright Smart Securities dated 3 April 2007, it was mentioned that in a review conducted by the SFC on the business activities of Bright Smart Securities, it was found that there were areas where Bright Smart Securities was advised to review its operations. Bright Smart Securities had subsequently replied to the SFC on 17 April 2007 regarding measures taken to correct all the findings in the review conducted by the SFC and external accountants were to be engaged to review its operation ensuring compliance with applicable rules and regulations, particularly regarding the safeguarding of client securities. The SFC replied on 24 April 2007 with no further comment on Bright Smart Securities’ response. A review was subsequently performed in March 2009 by the Reviewing Firm. Set out below are the details of the SFC’s findings on Bright Smart Securities, which were all subsequently rectified:

#### 1. *Safeguarding of client securities*

- Deficiencies in handling of physical scrips
  - Bright Smart Securities did not have a practice to segregate physical scrips into margin or cash clients when depositing into CCASS. In addition, Bright Smart Securities had no procedure in place to transfer and segregate these client securities into the respective designated CCASS stock segregated accounts afterwards. Bright Smart Securities was required to implement effective supervisory controls and monitoring procedures to ensure that Bright Smart Securities complies with the segregation requirements under the Securities and Futures (Client Securities) Rules.
- Failure to properly handle clients’ direction regarding dealing of client securities
  - Bright Smart Securities was advised to establish effective controls and procedures to ensure it properly and promptly handles clients’ directions/ instructions in respect of treatment of their securities and complies with the requirements under the Securities and Futures (Client Securities) Rules.

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- Deficiencies in stock reconciliation
  - Bright Smart Securities reconciled the securities holdings in CCASS stock segregated accounts with the internal stock ledger on a sample basis, it was unable to promptly identify and rectify errors occurred during the movement of client securities in CCASS stock segregated accounts. In the opinion of the SFC, Bright Smart Securities failed to comply with the requirement under the Securities and Futures (Client Securities) Rules and the Code of Conduct for Persons Licensed by or Registered with the SFC.
- Inadequate control over protection of clients’ physical scrips
  - Bright Smart Securities did not have in place a completed procedure to protect client’s physical scrips. It was suggested that it should appropriately segregate the dates of handling, safekeeping and counting the physical scrips, maintain proper records of scrip counts for review by senior staff and implement controls and procedures to ensure client assets are adequately safeguarded and in compliance with the relevant codes of conduct and guidelines.

### 2. *Errors and omissions in the financial returns*

The review of financial returns of October 2006 by the SFC revealed the following errors in the liquid capital computation:

- Omission of the ranking liabilities the amount of financial adjustment on concentration of margin clients calculated accordance with section 42(1) of the Securities and Futures (Financial Resources) Rules; and
- It had incorrectly set-off all of its amounts receivable from and amounts payable to clients in respect of purchase and sale of securities upon the calculation of outstanding balance of the cash clients in the financial returns.

### 3. *Inadequate control over credit risk on margin lending policy*

- It was noted that certain requirements under the Code of Conduct for Persons Licensed by or Registered with the SFC had not be addressed. Bright Smart Securities was advised to review its margin lending policy and develop a prudent margin lending and margin call policy and ensure compliance by its staff.
- Bright Smart Securities did not have a proper policy to document the basis of deviation from the margin lending policy and provide the SFC any evidence on management approval of such deviation.

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4. *Inaccurate description of authorised person in discretionary authority*

- Bright Smart Securities was advised to review all of the discretionary authorities granted by its clients to see if they reflect the actual circumstances and take all necessary steps to ensure compliance with the relevant requirements under the Code of Conduct.

5. *Delay in time stamping of the deal tickets*

- There was in breach of paragraph 3.9 of the Code of Conduct and paragraph VII (6) of the Management, Supervision and Internal Control Guidelines For Persons Licensed by or Registered with the SFC whereby one account executive did not record the client’s identity or time stamp on his order sheet on time.

6. *Deficiencies in business continuity arrangement*

- Bright Smart Securities did not have a proper business continuity arrangement regarding failure of its online securities trading system and it was advised to develop and implement an effective business continuity plan appropriate to the size of the firm to ensure that it is protected from the risk of interruption to its business continuity.

7. *Inadequate resources and procedures*

- Bright Smart Securities did not deploy adequate resources and implant appropriate procedures to serve its clients and ensure compliance with all applicable rules and regulations. Failure to comply with any applicable rules and provision of the Code of Conduct may call into question its fitness and properness to remain as a licensed person. Bright Smart Securities was requested to review its existing resources allocation and internal control procedures to ensure proper performance of its business and compliance with all applicable rules and regulations.

### ***Bright Smart Futures***

In a letter from the SFC to Bright Smart Futures dated 10 April 2007, it was mentioned that in a review conducted by SFC of the business activities of Bright Smart Futures, it was found that there were areas where Bright Smart Futures were advised to review its operations. Bright Smart Futures had subsequently replied to the SFC on 17 April 2007 regarding measures taken to correct all the findings in the review conducted by the SFC. The SFC replied on 24 April 2007 with no further comment on Bright Smart Futures’ response. Set out below are the details of the SFC’s findings on Bright Smart Futures, which were all subsequently rectified:

1. *Inappropriate records*

- Bright Smart Futures gives inaccurate description of authorised person and accordingly it was in breach of paragraph 7.1(b) of the Code of Conduct.

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- Bright Smart Futures did not designate the discretionary accounts in its records, including the statement of accounts, as “discretionary accounts” as required under paragraph 7.1(c) of the Code of Conduct for Persons Licensed by or Registered with SFC. In response to this review, Bright Smart Futures had closed all discretionary accounts and decided not to recruit additional account executives in future. Also, if there was any discretionary account to be opened, the manager of Customer Service Department of Bright Smart Futures would ensure the due compliance of the relevant code, including but not limited to the proper description of the authorised person and designation of such accounts as “discretionary accounts” in all relevant statement of accounts and records.

### II. Review of internal control systems

Following the review conducted by the SFC on 15 January 2007, the Reviewing Firm was commissioned by the Group on 25 April 2008 to perform review of newly implemented internal control procedures by Bright Smart Securities (the “First Review”).

On 24 October 2008, a report (the “First Report”) was issued by the Reviewing Firm. The Reviewing Firm had performed field work at the office premise of the Group. After the First Review, Bright Smart Securities had also engaged the Reviewing Firm to perform a follow-up review (the “Second Review”) where a report (the “Second Report”) was subsequently issued on 23 March 2009.

The Board and management of the Group acknowledge that they are responsible for establishing and maintaining adequate internal controls including ensuring their compliance with all applicable laws and regulations.

#### A. The First Review

The findings and recommendations made by the Reviewing Firm in the First Report are summarised as follows:

##### i. *High level controls*

1. The Customer Service Department received and passed clients’ complaints direct to the responsible department for handling but investigation procedures and results would not be communicated to the Risk Control Department. The Reviewing Firm suggested that the Risk Control Department should act as a control point getting informed of all client complaints and investigation results.
2. Communications with regulatory bodies like the SFC and the HKEx were done by various departments. Correspondence between regulatory bodies and various departments did not route through the Risk Control Department. The Reviewing Firm suggested that all correspondence with regulatory bodies should go through the Risk Control Department as a controlling procedure.

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3. Bright Smart Securities had a monitoring committee comprising department heads of the Administration Department, Customer Service Department, Risk Control Department and Legal Department. The Reviewing Firm suggested that the head of the Dealing Department (i.e., a Responsible Officer) and the financial controller be included in the composition of the monitoring committee.
4. The Risk Control Department handled compliance functions and daily high risk operations. Compliance functions were insufficient and not clearly defined. The Reviewing Firm suggested that the compliance function be passed to an independent staff member who would be monitored by the head of the Risk Control Department, who was also the compliance officer of Bright Smart Securities, and to re-define the compliance functions.

### **ii    *Handling of client’s securities***

5. Clients’ authorisation letters were signed and kept with the account opening form during the account opening stage. Should a client wish to cancel the standing authority, he or she had to inform Bright Smart Securities in writing. Annual renewal letters of standing authority would be sent out by the Risk Control Department. However, the original letters were mailed out without taking copies for record.

### **iii.   *Delivery of trading documents***

6. A specific staff of the Administration Department was assigned to register all incoming and outgoing mails and emails. However, certain outgoing documents like daily statements, monthly statements, annual renewal letters and welcome letters to clients were not registered. The Reviewing Firm suggested that all outgoing mails be registered.
7. All clients’ information could only be amended by the Risk Control Department. However, there was no day-end report on the amendments for management’s review.
8. On a daily basis, the account team would perform random checking on 5 clients’ daily statements with large volume of transactions. However, all the working papers would be destroyed after two months because of voluminous transaction information. The Reviewing Firm suggested that the working papers be kept for record and be random checked by the Risk Control Department.

### **iv.   *Complaint handling***

9. The Customer Service Department received all complaints. However, the Reviewing Firm suggested that the complaint handling function be assigned to a department unconnected with clients’ affairs which would handle all clients’ complaints and queries from the regulatory bodies, and all incoming complaints and queries with the handling results were minuted on a master record for the monitoring committee to review on a regular basis.

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10. All error trade reports were kept by the Human Resources Department. The Reviewing Firm suggested that the Risk Control Department should also keep a master copy of such records for monitoring and confining compliance risk.

### **B. The Second Review**

Bright Smart Securities has largely taken up the recommendations made by the Reviewing Firm in the First Report. On 23 February 2009, the Reviewing Firm performed the Second Review on the remedial work performed by the management on the significant internal control weaknesses identified in the First Review. The following summarises the remedial work done by Bright Smart Securities and the findings and recommendations, if any, made by the Reviewing Firm following the Second Review as set out in the Second Report:

#### **i     *Organisation chart***

A new organisational chart covering all the companies within the Group is documented. It was noted that monitoring committee and the Risk Control Department were restructured and renamed to Compliance/Risk/Quality Control Team (the “CRQC Team”), which acted as an independent team to monitor the operation of Bright Smart Securities.

#### **ii    *Changes in operational manual***

Bright Smart Securities then issued renewal letters for (i) standing authority governed by the Securities and Futures (Client Securities) Rules (applicable to margin clients only); and (ii) standing authority governed by the Securities and Futures (Client Money) Rules (applicable to clients with both securities and futures accounts).

Bright Smart Securities did not have any discretionary accounts.

#### **iii   *New compliance tests on internal control system adopted by CRQC Team***

It was revealed that the compliance tests, using the business data of January 2009, had been performed with satisfactory result.

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### iv. *Follow-up work performed with reference to the First Review*

| Identified weaknesses          | Measures taken                                                                                                                                                                                                                                                                                                                                                                 | Subsequent review by the Reviewing Firm                                                                                                                                                                                                                                                                                            |
|--------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| High level controls<br>Point 1 | Client complaint with investigation results would be detailed on the “Client Complaint Form” which would be reviewed by customer service manager, compliance manager; chairman, general manager, Responsible Officer and financial controller. All completed client complaint forms would be registered in “Client Complaint Master Record” and kept in Compliance Department. | The Reviewing Firm had scrutinised all the “Client Complaint Form” since July 2008 and the “Error Trade Report” and were satisfied that the rectification measures had been properly implemented.                                                                                                                                  |
| Complaint handling<br>Point 9  |                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                    |
| Point 10                       |                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                    |
| High level controls<br>Point 2 | All reply letters prepared by responsible department would be reviewed by the Risk Control Department.                                                                                                                                                                                                                                                                         | All reply letters, except matters relating to financial returns, were then prepared by the CRQC Team after gathering all the information from various departments. The Reviewing Firm had scrutinised all the reply letters kept by the CRQC Team. It was satisfied that the rectification measures had been properly implemented. |
| High level controls<br>Point 3 | Head of Dealing Department and financial controller were then members of the monitoring committee.                                                                                                                                                                                                                                                                             | Monitoring Committee was not shown in the revised organizational chart although all department heads will meet with the chairman and chief executive officer everyday.                                                                                                                                                             |
| High level controls<br>Point 4 | The compliance function would be redefined.                                                                                                                                                                                                                                                                                                                                    | The Risk Control Department was then renamed as the CRQC Team, this team was further divided into compliance sub-team, risk control sub-team and quality control sub-team with job duties were clearly defined.                                                                                                                    |
|                                | Risk control and compliance functions were handled by two separate teams.                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                    |
|                                |                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                    |
|                                |                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                    |
|                                |                                                                                                                                                                                                                                                                                                                                                                                | Risk control and compliance functions were then handled by two separate teams. Compliance sub-team was mainly responsible for handling complaints and communication with regulatory bodies.                                                                                                                                        |
|                                |                                                                                                                                                                                                                                                                                                                                                                                | Risk control sub-team was mainly responsible for high risk operation like handling client information and approval of account opening.                                                                                                                                                                                             |
|                                |                                                                                                                                                                                                                                                                                                                                                                                | Quality control sub-team was mainly responsible for performing compliance tests for the Group.                                                                                                                                                                                                                                     |

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| <u>Identified weaknesses</u>               | <u>Measures taken</u>                                                                                                              | <u>Subsequent review by the Reviewing Firm</u>                                                                                                                                                                                      |
|--------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Handling of client’s securities<br>Point 5 | A control list together with sample letters would be passed to the Administration Department for registration and storage purpose. | The Reviewing Firm had scrutinised the register kept by Administration Department and noted that all the documents such as control list and sample letters had been properly registered.                                            |
| Delivery of trading documents<br>Point 6   |                                                                                                                                    |                                                                                                                                                                                                                                     |
| Delivery of trading documents<br>Point 7   | Daily amendment report would be printed out and reviewed by the Risk Control Department.                                           | A new report named “Client Master Maintenance Log” would be printed out whenever there was amendment to client’s information. One sample was selected randomly and checked that such report was reviewed and kept by the CRQC Team. |
| Delivery of trading documents<br>Point 8   | Working papers of checking of correctness of statements sent to clients would be kept for six months.                              | Working papers of checking of correctness of statements sent to clients were then kept for six months.                                                                                                                              |
|                                            |                                                                                                                                    | The Reviewing Firm had scrutinised the working papers performed by Settlement Department. The working papers would be randomly reviewed by the CRQC Team.                                                                           |

### v. *Business continuity plan*

Review of emergency site — testing of the emergency site was completed in July 2008. In order to ensure all staff are familiar with the operation of the emergency site, regular testing and rehearsal will be held. For the Dealing Department, they would visit the emergency site twice a month to perform actual dealing function.

### C. SFC’s circular on information technology management

As described in the “Circular to All Licensed Corporations on Information Technology Management” issued by the SFC on 16 March 2010 (“IT Circular”), the licensed corporations are required to establish policies and procedures to ensure the integrity, security, availability, reliability and thoroughness of all information, including documentation and electronically stored data, relevant to the firm’s business operations. The firm’s operating and information management systems should meet the firm’s needs and operate in a secure and adequately controlled environment. The IT Circular provides guidance on the control techniques and procedures in respect of the following key areas:

- (a) Information security policy;
- (b) Access control;

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- (c) Encryption;
- (d) Change management;
- (e) User activities monitoring; and
- (f) Data backup and continuity planning.

In connection with the issues to be considered by licensed corporations in relation to information technology management as described in the IT Circular, the Group had initiated a review. There was no significant deviation in the Group’s current internal control system identified during the review in relation to the guidance on information technology management as described in the IT Circular issued by the SFC.

The Directors also confirmed that the Group was in full compliance with the applicable requirements as stipulated in the various circulars issued by the SFC to licensed corporations (including, but not limited to, the IT Circular and the “Circular to licensed corporations providing online trading services” issued by the SFC) up to the Latest Practicable Date.

### CURRENT INTERNAL CONTROL SYSTEM

Following the identification of historical internal control weaknesses and the review conducted by the SFC and the Reviewing Firm as detailed in the sub-sections headed "Identified historical internal control weaknesses and subsequent rectifications" and "Disciplinary actions" in this section, the Group has implemented various measures to rectify the weaknesses spotted in order to further enhance its internal control system. The following depicts the current internal controls on the Group’s major operating areas subsequent to the implementation of all the rectification measures mentioned above:

#### **Operational control**

##### ***Responsible Officers***

Under section 125 of the SFO, the Group, as a licensed corporation, is required to appoint at least two Responsible Officers for each type of regulated activities, one of which 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.

Responsible Officers are mainly responsible for (i) reviewing daily dealings, books of accounts and reports; (ii) day-to-day margin call and all aspects of credit and risk management; (iii) ensuring client orders are executed in a fair, efficient and accurate manner; (iv) ensuring complete and proper business records are kept at all times; (v) supervising the trading behavior of dealers and traders; and (vi) controlling and monitoring compliance issues and solving dealing problems.

All Responsible Officers of the Group are either Directors or senior management of the Company. Particulars of Responsible Officers, including their roles as Responsible Officers of the Group, are set out in the section headed “Directors, senior management and employees”.

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### *Opening and handling of client accounts*

The Group obtains and retains all relevant client information, signature specimen of the client, and other documentation. All such information will be inputted into the Group’s back-office computer system by the Legal and Compliance Department and information in the account opening form will be independently verified for completeness and reasonableness by the Legal and Compliance Department.

Licensed customer service staff shall provide client with adequate information about the Group and its services, together with other relevant documents such as the relevant risk disclosure statements, and list of commission charges, penalties and other fees that the Group may charge. The customer service staff is also required to check against the list of politically exposed persons (“PEPs”) before accepting a new client. A “Risk Screen Report” is generated showing the result of checking the PEPs exposure of the client against a database provided by an external service provider and [there is documented evidence of checking by the customer service team of client’s identity against the anti-money laundering list.] Manager of the Customer Service Department would double-check the account opening documents prior to giving approval for client acceptance.

For corporate clients, the Group requires additional documents such as incorporation documents, annual returns, bank confirmation letter, minutes of approval by the board of directors and personal guarantees by (i) at least a director or a major shareholder and (ii) all authorised persons. No staff of other licensed corporation is allowed to open an account with the Group unless that licensed corporation has given its written consent.

[In order to ensure that only Licensed Representatives are involved in the accounts opening processing with the client, the handling staff member must fill in his/her own SFC licensing identification number on the client’s account opening documents which will later be checked by the Legal and Compliance Department.]

### *Dealing practices*

For each of the three years ended 31 March 2008, 2009 and 2010, value of transactions with orders placed online accounted for approximately 75.0%, 85.6% and 87.6% respectively of Bright Smart Securities’ total value of transactions, with the remaining trading activities originated from clients’ telephone orders. Online buy/sell orders are automatically transmitted to the Group’s electronic trading system which is connected to the Stock Exchange’s trading system and provides automatic matching and execution of buy/sell orders received from clients. The Group’s electronic trading system also automatically calculates buying power of a client based on available cash balance or available credit based on securities held and their respective margin ratios, before the order is sent to the Stock Exchange’s trading system. As such, no involvement of dealers is required for client’s trading activities performed online.

For telephone buy/sell orders, a licensed dealer from the Dealing Department first ascertains client’s information and its account number. Prior to executing a client order, the dealer is required to check the client’s buying power (in case of a buy order), or the sufficiency of stockholding (in case of a sell order). If the client’s account shows insufficient buying power for an amount exceeding certain thresholds, or insufficient stockholding, his/her telephone order must then be subject to the approval of a unit manager or Responsible Officer. Upon execution of an order, a dealer will acknowledge it with the

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client via telephone and update the trade system for record. Only Licensed Representatives and Responsible Officers are given access to the trading system of the Group for the purpose of order placing, which effectively prevents unlicensed persons to place orders for clients.

All telephone conversations with clients shall be tape recorded and records are kept for at least three months in accordance with the relevant rules as required by the SFC. Details of every transaction, including order details and timing, are recorded in the system, which are printed out for filling purpose.

Error trades are usually discovered (i) when client notifies the Group of such wrong order; or (ii) when the dealer himself finds out after execution of orders. Error trades usually arose from input mistake on the product code, direction of order, price of order or quantity of order by staff members or misunderstanding of client instructions. Except for the two system failures occurred in November 2007 and November 2008 as mentioned in the section headed “History, reorganisation and group structure” in this document, the Directors confirmed that all of the error trading during the Track Record Period were due to personal error and they were not aware of any material operational impact on the Group with regard to error trades. For the three years ended 31 March 2008, 2009 and 2010, the net loss arising from error trades amounted to approximately HK\$390,000, HK\$383,000 and HK\$420,000 respectively, affecting approximately 124, 61 and 98 clients respectively. All these losses [were resulted from the rectification of the error trades and] had been fully settled and as far as the Directors are aware, there are [no further claims as at the Latest Practicable Date]. Save as aforesaid, the Directors confirmed that the Group was not subject to any disputes, claims, legal proceedings or other contingent liabilities in relation to any error trades during the Track Record Period and had never been imposed any regulatory fines due to error trades up to the [Latest Practicable Date].

Upon reporting or discovery of any error trade, telephone conversation and/or trading record must be retrieved by a unit manager or a Responsible Officer to confirm whether such error trade existed. The responsible staff will need to prepare an “Error Report” detailing the name of client and the responsible staff, reason for the error and any loss arising therefrom. The “Error Report” has to be approved by a Responsible Officer and the General Manager. The responsible staff will then prepare a “Trade Modification Request Form” to request appropriate remedial action which will then be approved by a Responsible Officer. The Settlement Department will check the amount of loss arising as a result of the error trade. The Accounting Department will then make appropriate accounting entry. The Risk and Quality Control Department will review the “Error Report” and filed relevant documents. The Risk and Quality Control Department is also responsible for determining whether the case is a reportable event to the regulatory bodies.

To prevent reoccurrence of error trade, the Directors confirmed that the Group has implemented the following three measures, which are administrative and management actions to counter human errors, as such they are not within the recommendations of the Reviewing Firm. First, meetings are held [twice a week] by the Dealing Department starting from [November 2009] to discuss any error trade occurred. Second, starting from [April 2007], warnings are given to the staff who has mistakenly made an error trade. Lastly, starting from [September 2009], training on order placing are provided to all dealers to prevent error trade arose from input mistake. Nevertheless, it is recognised that the occurrence of error trade cannot be totally eliminated even with proper measures in place as error trade is mainly the result of human error made by dealers.

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Provision of automated trading activities (including placing of an order, amending, canceling and execution of such order) are generally regulated by the SFO and would need to be licensed for Type 7 regulated activity. However, the Group only provides electronic order routing services which would not be generally regarded as Type 7 regulated activity and is therefore, having consulted with its legal adviser, not required to obtain license for Type 7 regulated activity for such online securities trading business. The Group recognises the importance of safeguarding its clients’ money and takes all reasonable steps to ensure that all transactions are secure. The Group only allows its licensed persons to handle follow-up services in respect of online trading (e.g. when certain orders exceed trading limits of a particular account, or when wrong orders are placed resulting in rejection by the trading system, etc).

All the staff in the Group currently performing regulated activities, including staff members in the Dealing Department handling clients’ orders, are properly registered under SFO as either Licensed Representatives or Responsible Officers.

### *Client fund handling*

Clients can place deposits into their accounts with the Group by crossed cheque, direct cash deposit to the Group’s headquarter and branch(es) (up to a prescribed limit, which as at Latest Practicable Date was HK\$20,000), direct bank deposit or transfer. No matter which mode of payment clients choose to use, clients shall provide sufficient evidence to show that the monies have been deposited into their accounts, failing which, the Group will temporarily treat the deposits as unidentified deposits and record the same in “Abnormal Deposit Report” until evidence can be provided to the Group to show that the monies were deposited by the clients.

Clients can withdraw their funds by notifying customer service staff. After verifying clients’ trading record and available balances by the Customer Service Department and the Settlement Department, financial controller will approve the withdrawals and issue the crossed cheques to the clients.

### *Client stock handling*

Clients can withdraw their stocks in the form of physical scrip or transfer between stock accounts with CCASS. After verifying clients’ trading record and available balances by the Customer Service Department, the Settlement Department will notify the client’s broker for transfer or will distribute physical scrip to the client. Likewise, clients can deposits stocks into their client accounts by transfer between stock accounts with CCASS or in the form of physical scrip.

No matter which mode of stock handling clients choose to use, the Settlement Department will reconcile the securities held under the Group’s custody on behalf of clients with the balances of the Group’s CCASS stock accounts and physical scrip on a regular basis. Irregularities will be investigated and recorded.

### *Corporate actions*

The Group generates CCASS’ “Entitlement Statement” daily to ensure that appropriate actions have been taken for clients who are entitled to different corporate actions like cash dividend, bonus share, scrip dividend and subscription for rights issues. The Settlement Department will input relevant

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details of corporate actions into the Group’s back-office computer system and verify information provided by CCASS. After receiving entitlements from CCASS, the Group will pay/distribute accordingly and record such transactions on the statements to be sent to clients.

### *Margin financing policy — credit control procedures and monitoring of financial resources*

The Group provides margin financing services to margin clients to facilitate acquisitions or holdings of listed securities by the clients. The Group has adopted different margin ratios for each of the securities and such ratios will be adjusted according to the market. Each day, the Group is responsible for preparing “margin shortfall report” and “margin client analysis” to assist the assessment of individual client’s credit exposure, the “illiquid collateral list” in assessing the liquidity of the Group’s major margin clients’ stockholdings and the “client top stocks portfolio report” in monitoring the Group’s margin clients’ major stockholdings.

The Customer Service Department will then contact clients who would need to top up margin deposits based on the reports generated by the Settlement Department. Responsible officer will base on the results of margin call and the “Liquidation Evaluation Report” (for evaluation of top up margin deposits required and client’s stock holdings) to prepare the “Margin Call/Liquidation Toleration Report” [to assess whether a liquidation of client’s stocks is needed], which will be reviewed by a Responsible Officer, the general manager, the financial controller, the customer service department and the Legal and Compliance Department. In case of a need for liquidating client’s stocks, Responsible Officer will be responsible for execution of selling stocks on the market, and such decision will be communicated to individual client by the dealer.

For individual clients having large transaction volume with the Group, satisfactory past trading record and quality stock holdings, a trading line may be offered to such clients, allowing them to purchase securities without having to pay deposits and to settle the purchase consideration before the settlement date. The Directors are not aware of any regulation or rule which restricts the Group in allowing its margin clients to purchase securities without having to pay deposits. The Group has established policies and procedures to evaluate the financial and other information of the client, including property value and position on mortgage, annual average income, value of other assets, nature of securities to be bought/sold and past trading record, prior to approving client’s trading line. Responsible Officer monitors the daily utilisation of trading limits of every client and the Legal and Compliance Department will review the properties and companies of clients by conducting land search and company search on a monthly basis.

The Group utilises the data from last trading day, including client’s portfolio of stocks and client’s available cash balances, to conduct stress test as a risk management control to protect the Group in the situation of market fluctuations and maintain sufficient liquid capital position. According to the margin financing policy of the Group, stress test shall be performed every six months and whenever there is material change in market conditions to be determined by the Responsible Officers or upon request of the SFC. The Directors advised that the test simulates the scenario with a large fluctuation in the stock markets in order to test the ability of the Group in meeting the financial requirements under relevant regulations. Reports generated from stress tests will be circulated to different business units for evaluation. Financial controller will compute liquid capital of the day and record in “Liquid Capital Computation”.

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The Accounting Department is responsible for monitoring and preparing the reports for compliance with the financial requirements of the relevant regulations from time to time. Such responsibilities include (but not limited to) the preparation of the daily “[Liquid Capital Computation]” for monitoring of the liquid capital of the Group’s two operating subsidiaries, and the reporting to senior management of the Group and the regulatory body once the liquid capital drops below certain alert / reporting level. It also covers the areas on its preparation procedures, updating regulatory requirements, monitoring mechanisms and reporting violations.

### *Handling of complaints from clients*

The Group has established policies and procedures to ensure proper handling of complaints from clients and that appropriate remedial action shall be taken promptly. Clients may lodge complaints via telephone, emails, facsimile message, letters or even in person. It is the Group’s policy that licensed customer service staff shall try to resolve the complaint immediately or refer the matter to the assistant customer service manager in case of more serious complaints from clients. The assistant customer service manager shall listen to the telephone conversation, review the relevant documents and interview the staff concerned. Upon completion of the fact finding procedure, the assistant customer service manager shall implement measures to correct the mistake and notify the staff concerned. The assistant customer service manager shall also report the complaint findings to the complainant and, if necessary, to the SFC.

All complaints are to be reviewed by the customer service manager and proper records will be kept by the Group.

### *Staff dealing*

The following principles govern staff dealings by all employees of the Group, including the Directors and senior management of the Group:

- an employee must not deal or procure, advise or cause any other person to deal in any investment in relation to which he/she has acquired unpublished price sensitive information or in any investment related thereto, or on the basis of confidential information which is in his/her possession as a result of his/her employment with the Group;
- an employee must not deal in circumstances, which present a conflict of interest with the Group’s clients (for example, front running);
- an employee must not deal where such dealing could affect the reputation or best interests of the Group;
- an employee must not deal if such dealing could commit the employee to a financial liability which could not easily be met from readily available funds or which over-stretches the employee’s financial resources;
- an employee must not deal in circumstances, which affect the proper performance of his/her duties to the Group; and

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- an employee must observe the spirit of these principles and any applicable regulatory requirements or legislations.

Staff members of the Group are required to declare any securities trading or futures and options trading accounts inside and outside the Group upon the commencement of employment. It is the policy that staff members are required to close any securities trading or futures and options trading account declared outside the Group within 30 calendar days. However, staff members may obtain prior specific approval from the chairman, the general manager or the head of the Legal and Compliance Department if they would like to open or maintain the securities trading account outside the Group. [Staff members are not allowed to keep futures and options trading accounts outside the Group upon commencement of employment in the Group, except for those obtained specific approval from the chairman, the general manager or the head of the Legal and Compliance Department. Staff members are required to produce all monthly statements to the Legal and Compliance Department in relation to their trading accounts maintained outside the Group.]

Staff members are only allowed to trade if pre-approval from Responsible Officer is obtained. [Responsible Officers are only allowed to trade if pre-approval is obtained from a different Responsible Officer.] Also, staff members cannot open online trading account in the Group and are only allowed to open margin trading and future trading accounts in the Group with specific approval from the chairman, the general manager or the head of the Legal and Compliance Department.

The Legal and Compliance Department will monitor accounts of the staff and his spouse, parents, siblings and children. Such monitor list will be updated regularly. Before making order, staff needs to fill in “Bought/Sold Order” and seek approval from a Responsible Officer. Once approved, such order will be handled and executed by a Responsible Officer, and time will be marked on the “Bought/Sold Order” using time chop in order to ensure no front-running by the staff. The Group generates an “A.E.R. Fee Report” to Responsible Officer and compliance officer each day after the market closes. Responsible Officer will reconcile the report with staff dealings of the day. Staff members are not allowed to undertake more than two transactions within a week, unless prior approval is obtained from the Legal and Compliance Department.

It is the Group’s policy that the compliance officer prepares reports of dealings made by staff and their connected persons on a weekly basis, which will be later reviewed by the risk control manager. Trading of warrant and futures, day trade and margin trade by staff are not allowed unless with specific prior approval from the chairman, the general manager or the head of the Legal and Compliance Department under the Group’s policy.

It is the Group’s policy that every six months, every staff of the Group shall make a declaration to update his trading accounts and relevant records.

### *Segregation of duties and functions*

Key duties and functions are appropriately segregated; particularly those duties and functions when performed by the same individual may result in undetected errors or may be susceptible to abuses which may put the interest of the Group or its clients at risk.

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The Group’s settlement and accounting functions are separated from its sales and dealing functions. The Group’s compliance and credit control functions are segregated. The Group has segregated reporting line for the staff of each of the settlement, accounting, compliance, credit control, customer service, dealing and personnel functions.

### *Information technology related controls*

The Group has in place [effective] information security policy and rules which control over the Company’s information technology infrastructure. Access controls are in place so that all users’ (including staff, clients and vendors of the securities/futures trading system and back-office system) access to the system requires to be authorised by the Company. Password policies and standards are formalised to facilitate user authentication and access control. The Group’s computer system and information processing facilities are protected by firewalls, intrusion protection systems and anti-virus software to prevent and detect any potential threats by computer viruses and other malicious software. Encryption is applied to the transmission of sensitive information. The Company performs compliance checking against the established information technology policies. Daily backup procedures and business continuity plan are in place to ensure continuity of the Group’s operation.

To ensure the stability of the online trading system and prevent computer system breakdown in future, the Group has implemented the following measures. First, all hardware components of the trading system have backup components to ensure any hardware failure can be recovered within a short period of time. Second, staff members from the Research and Development & Information Technology Department and the Dealing Department closely monitor the stability and performance of the trading system. Any abnormal behavior of the trading system can be identified and rectified at an early stage. Third, any software/hardware changes in the trading system will be tested during market rehearsal session before rollout. Regular checking on compliance will be performed to ensure the trading system is not modified or accessed by unauthorised persons.

### **Data Protection Regulations**

In order to conduct its businesses, the Group collects, holds, processes or uses personal data and is therefore governed under the Personal Data (Privacy) Ordinance (Cap 486) (the “Ordinance”). The purpose of the Ordinance is to protect individuals’ right to privacy by regulating the handling of personal data in Hong Kong. The Group complies with the data protection principles set out in the Ordinance relating to:

- the purpose and manner of collection of personal data;
- the accuracy and duration of retention of personal data;
- the use of personal data;
- the security of personal data;
- information to be generally available; and
- access to personal data.

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The Group has in place a policy to protect its clients’ privacy which state how the information will be used and whether or not the information will be distributed to other organizations. The Group would ask for client’s consent if they intend to share information with partner vendors who offer related products or services.

### **Risk management**

#### ***Credit risk***

In respect of accounts receivable due from clients, individual credit evaluations are performed on all clients including cash and margin clients. Cash clients are required to place deposits as prescribed by the Group’s credit policy before execution of any purchase transactions. Receivables due from cash clients are due within the settlement date commonly adopted by the relevant market convention, which is usually within a few days from the trade date. Because of the prescribed deposit requirements and the short settlement period involved, credit risk arising from the accounts receivable due from cash clients is considered small. The Group normally obtains liquid securities and/or cash deposits as collateral for providing margin financing to its clients. Margin loans due from margin clients are repayable on demand. For commodities and futures broking, initial margin is required before opening of a trading position. Market conditions and adequacy of securities collateral and margin deposits of each margin account and futures account are monitored by the management of the Group on a daily basis. Margin calls and forced liquidation are made where necessary.

In respect of accounts receivable from brokers and clearing houses, credit risks are considered low as the Group normally enters into transactions with brokers and clearing houses which are registered with regulatory bodies and with sound reputation in the industry.

The Group has no significant concentration of credit risk as credits are granted to a large population of clients.

The Group does not provide any other guarantees which would expose the Group to credit risk.

#### ***Liquidity risk***

Individual operating entities within the Group are responsible for their own cash management, including the raising of loans to cover expected cash demands, and to ensure compliance with FRR. The Group’s policy is to regularly monitor its liquidity requirement and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The Group’s policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and funding in the short and long term. All of the Group’s liabilities are expected to be settled within one year.

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### *Interest rate risk*

The Group charges interest on its margin clients on the basis of its cost of funding plus a mark-up. Financial assets such as margin loans and deposit with banks are primarily at floating rates. Financial liabilities such as amount due to a related company and bank loans are primarily at fixed rates. The Group’s income and operating cash flows are not subject to significant interest rate risk.

### *Foreign currency risk*

The Group’s business is principally conducted in HK dollars and US dollars and most of the Group’s monetary assets and liabilities are denominated in HK dollars. As the HK dollars is pegged to the US dollars, the Group considers the risk of movements in exchange rates between the HK dollars and the US dollars to be insignificant.

## COMPLAINTS RECEIVED BY THE GROUP

Bright Smart Securities and/or Bright Smart Futures received a number of complaints during the Track Record Period. Set out below are summaries of the complaints received by the Group and the regulators, and complaints regarding the Group’s policies and procedures during the Track Record Period. Remedial actions had already been taken in respect of all the above complaints received.

### **I. Complaints received by the Group and the regulators**

- (a) On 21 November 2008, Bright Smart Securities received a written complaint, copies of which were sent to the SFC and HKEx, from a client requesting to withdraw deposit from his margin account plus interest accrued based on interest rate different from that agreed by Bright Smart Securities and refund of interest charged by Bright Smart Securities for the period when margin was not received. Bright Smart Securities has set out in its operational manual on fund withdrawal policy whereby clients are only entitled to withdraw the floating surplus fund in their accounts. It also states that interests of 0.01% p.a. will only be credited by the Group for balance in excess of HK\$60,000. Given that the money was received three days after the margin call was initiated, Bright Smart Securities was entitled to charge the client interest for the period in-between, according to the Group’s policy. The client was satisfied about the explanations.

In light of the above and after making reference to the industry practice, the Group subsequently revised the fund withdrawal policy and allowed clients to withdraw the floating surplus in their accounts.

A formal reply letter was sent to the client with copies filed with the SFC and HKEx. As no further comments were received from the client, the SFC and HKEx, the case came to a close.

- (b) On 20 February 2009, a client lodged a complaint to the SFC claiming his trade order for purchasing one million shares of a callable bull/bear contract on a particular day was not executed in accordance with his instruction at the unit price he requested and he demanded compensation.

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On 22 April 2009, the SFC informed Bright Smart Securities that it noted the complaint. But if no further complaint was received from the client, the SFC would not give a written reply on this matter.

On 17 June 2009, Bright Smart Securities was notified by Investor Compensation Company Limited (“ICC”) regarding a claim made by that client against the Investor Compensation Fund. Such claim was subsequently dismissed by ICC on 2 October 2009 after due enquiries had been made.

- (c) On 24 September 2009, Bright Smart Securities received a letter from the SFC regarding a complaint lodged by a client. According to the allegations made by the client, he placed orders via Bright Smart Securities’ online platform on 27 August 2009, but experienced several system outages. He filed his complaints with Bright Smart Securities by phone and email, but received no response.

On 29 September 2009, the head of the Customer Service Department called the client and informed him that Bright Smart Securities would close his account during the investigation of his complaint.

On 2 October 2009, the account of the client was closed and the net balance of cash was deposited into his bank account.

In the reply letter dated 8 October 2009 to the SFC, Bright Smart Securities replied that the head of the Customer Service Department had attempted to contact the client by phone on 28 August 2009, but with no response. In addition, as the client continued to trade on 28 August 2009 through Bright Smart Securities’ online platform on that day, the Customer Service Department was of the view that he did not experience any system problems anymore, and therefore no further follow-up action was taken. Upon investigation, Bright Smart Securities concluded that the client must be unfamiliar with the operation of the internet trading system. To ensure that the client could successfully operate the internet trading system, the Customer Service Department invited the client to perform a real-time bid verification on 28 August 2009. However, the client refused.

As no further comments were received from the SFC, the case came to a close.

## II. Complaints regarding the Group’s policies and procedures

- (i) On 31 March 2008, a client made an enquiry regarding deposit requirement of Hang Seng Index futures.

He also complained, among other things, that the trading system was not updated to reflect changes made by the regulator.

In light of those complaints, Bright Smart Futures undertook to put resolving clients’ enquiries as the first priority when the same incident occurred, indicated it would establish internal guidelines to prevent the same event from happening again and

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signified that all terms and conditions should be referred to the English version for accuracy and that the company website would be shown in a new layout soon. The client accepted the above explanations and no further complaint was received from him.

- (ii) On 17 January 2009, a client complained that his instruction of buying shares was not properly executed by the dealer in charge and thereby demanded a waiver of all commission fees.

The order placed by the client was found captured on Bright Smart Securities telephone recording system, which did not support the claim allegedly made by the client. Nonetheless, Bright Smart Securities agreed to grant exemption of all commission fees relating to the transaction for the client. In addition, in order to prevent the reoccurrence of similar events, Bright Smart Securities would provide more training to staff. Furthermore, as a procedure on account opening, new clients are orally advised to place their phone-in orders based on number of shares rather than transaction amount. For any enquiries on the number of shares that a specified amount of fund could purchase, clients are advised to contact Customer Service Department for details. No further complaint was received from the client in this respect.

Save as disclosed above, the Directors, having made all relevant enquiries, are not aware of any other complaints received by the Group and the regulators or complaints regarding the Group’s policies and procedures up to the Latest Practicable Date.

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## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER

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### CONTROLLING SHAREHOLDERS

Immediately after completion of the [●], the Controlling Shareholders will together control the exercise of voting rights of approximately [67.5%] of the Shares eligible to vote in the general meeting of the Company (assuming the [●] is not exercised). To the best of the Directors’ knowledge, information and belief and having made all reasonable enquiries, New Charming is wholly-owned by Mr. Yip and as such, both Mr. Yip and New Charming are regarded as our Controlling Shareholders. Save for their respective interests in the Company and its subsidiaries, none of the Controlling Shareholders had any other interests in the Shares.

### Deed of Non-Competition

In order to protect the Group’s interest in its business activities, the Company and its Controlling Shareholders entered into the Deed of Non-competition on [●] 2010. Under the terms of the Deed of Non-competition, each of the Controlling Shareholders has irrevocably and unconditionally undertaken to the Company (for itself and for the benefit of each of its subsidiaries from time to time) that for so long as the Shares remain listed on the Stock Exchange and the Controlling Shareholders, whether individually or taken together, are interested directly or indirectly in 30% or more of the issued share capital of the Company, each of them will not, and will procure that its associates (other than the Group) will not, (i) on its own account or with each other or in conjunction with or on behalf of any person, firm or company, carry on or be engaged in, concerned with or interested in, directly or indirectly, whether as a shareholder (other than being a director or a shareholder of the Group), partner, agent or otherwise, any business that compete or may compete, directly or indirectly or through nominees, with the business undertaken by the Group from time to time (“Restricted Business”), (ii) on its own account or for the account of any person solicit business in connection with the Restricted Business from any client of the Group which during such period is a client of any of the members of the Group in connection with the Restricted Business; and (iii) induce or attempt to induce any director, manager or employee of the Group to terminate his service contract or employment with the Group, whether or not such act of that person would constitute a breach of that person’s service contract or contract of employment with any members of the Group.

Each of the Controlling Shareholders has also undertaken to the Company that:

- (i) it shall provide, or procure the provision of, all information and do, or procure to be done, all such other acts as may be necessary for such annual review by such independent non-executive Directors and the enforcement of the rights of the Company under the Deed of Non-competition; and
- (ii) it shall provide an annual confirmation to the Company confirming its compliance with the terms of the Deed of Non-competition, which confirmation will be disclosed in the annual reports to enable the Shareholders to appraise the competition issue.

The Deed of Non-competition will cease to have effect on the earlier of the date on which (i) Mr. Yip ceases to be a Director and together with his associates, whether individually or taken together, cease to be interested directly or indirectly in 30% or more of the issued share capital of the Company; or (ii) New Charming ceases to be interested directly or indirectly in 30% or more of the issued share capital of the Company; or (iii) the Shares cease to be [●].

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## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER

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[The Controlling Shareholders and the Directors confirm that they do not have any interest in business apart from the Group which competes or is likely to compete, directly or indirectly, with the Group’s business under Rule 8.10 of the Listing Rules.]

### CORPORATE GOVERNANCE MEASURES

Each of the Controlling Shareholders has confirmed that he/it fully comprehends his/its obligations to act in the best interests of the Company and its Shareholders as a whole. To avoid potential conflicts of interest, the Group will adopt a system of corporate governance with the following principal components:

- (i) the Group is committed to the view that the Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element on the Board which can effectively exercise independent judgment. The Company has appointed three independent non-executive Directors, one of whom has experience as an executive director of a listed company (namely, Ling Kwok Fai, Joseph). The Directors believe that the independent non-executive Directors are of sufficient caliber, are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial and professional advice to protect the interests of the minority Shareholders. The Directors also believe that the composition of the Board with directors of diverse backgrounds and experience allows the Board to evaluate its decisions from different perspectives. The Company may, where necessary, seek advice from external industry experts and/or consultants in order to provide the independent non-executive Directors with all the necessary support to enable them to exercise their independent judgment and discharge their duties and obligations to the Shareholders. Details of the independent non-executive Directors are set out in the section headed “Directors, senior management and employees” in this document;
- (ii) the independent non-executive Directors will review, on an annual basis, the compliance with the non-competition undertaking by the Controlling Shareholders under the Deed of Non-competition and to evaluate the effective implementation of the Deed of Non-competition;
- (iii) the Controlling Shareholders undertake to provide all information requested by the Group which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-competition;
- (iv) the Board will ensure that any material conflict or material potential conflict of interests will be reported to the independent non-executive Directors as soon as practicable when such conflict or potential conflict is discovered. Following the reporting of any material conflict or material potential conflict of interests, the Board will hold a meeting to review and evaluate the implications and risk exposure of such event and will monitor any material irregular business activities and alert the Board, including the independent non-executive Directors, to take any precautionary actions, where necessary;

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## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER

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- (v) the Company will observe any transaction that is proposed between the Group and its connected persons, and will be required to comply with chapter 14A of the Listing Rules including, where applicable, the announcement, reporting and independent shareholders’ approval requirements of those rules;
- (vi) the Company has appointed [●] as the compliance advisor, which will provide advice and guidance to the Company in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors’ duties and internal controls; and
- (vii) the Controlling Shareholders will make an annual confirmation as to compliance with his/its undertaking under the Deed of Non-competition for inclusion in the annual report of the Company.

### INDEPENDENCE FROM THE GROUP’S CONTROLLING SHAREHOLDERS

Having considered the matters described above and the following factors, the Directors believe that the Group is capable of carrying on its business independently of the Controlling Shareholders and their respective Associates after the [●]:

#### Management independence

The Board consists of eight Directors, comprising five executive Directors and three independent non-executive Directors. One of the executive Directors is a Controlling Shareholder.

Each of the Directors is fully aware of his fiduciary duties as a Director which requires, amongst other things, that he acts for the benefit and in the Shareholders’ best interests and does not allow any conflict between his duties as a Director and his personal interest to exist. In the event that there is a potential conflict of interests arising out of any transaction to be entered into between the Company and the Directors or their respective Associates, the interested Director(s) will abstain from voting at the relevant meeting of the Board in respect of such transactions and shall not be counted in the quorum.

#### Operational independence

The organisational structure of the Group is made of various departments and divisions, each with specific areas of responsibility. The Group has also established a set of internal control policy to facilitate the effective operation of its businesses.

During the Track Record Period, the Group has entered into certain tenancy agreements with connected persons of in Group and under the terms of which, the Group will continue to lease the premises as stated in the tenancy agreements. Details of such tenancy agreements are set out in the sub-section headed “Tenancy Agreements” in the section headed “Connected Transactions” of this document.

The Directors confirmed that during the Track Record Period, the management practice of the Group was to use certain related and unlicensed companies to sign contracts (mainly relating to administrative and management services contracts) on behalf of the Group which provide centralised control base and better control solutions. The Group could therefore focus on its main businesses and operations with the administrative support by these related companies. Furthermore, such arrangement

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER

may reduce the legal risk against the Group. The Directors confirmed that all such contracts [were either terminated or transferred] to the Group before [●], and [there was no non-compliance or unrecorded liabilities arising from such contracts during the Track Record Period and up to the Latest Practicable Date].

The Directors are of the opinion that the tenancy agreements as described above have been and will be conducted, and carried out, in the ordinary course of business of the Group as well as on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Therefore, the Group is not operationally dependent on the Controlling Shareholders.

### Financial independence

The Group has an independent accounting system and makes financial decisions according to its own business needs. During the Track Record Period, Bright Smart Securities (as the borrower) had entered into eight subordinated loan agreements with Manet Good (as the lender), pursuant to which Manet Good agreed to grant revolving credit facilities to Bright Smart Securities. Each of the loans was unsecured and borne no interests.

As the Group’s IPO financing business depends on the then market condition and demand of IPO financing by its clients, from time to time, it would be desirable for the Group to obtain capital on a temporary basis to increase its liquid capital and thereby the capability of the Group to obtain further bank financing in order to provide IPO financing to its clients. For the purpose of satisfying the liquid capital requirement under the FRR, it can be either a direct injection of share capital, or the use of a subordinated loan on a temporary basis and in a form agreed by the SFC to be treated as part of the capital base (with features such as last right of repayment). As the support for the Group’s IPO financing business is only required on a temporary basis, the Directors are of the view that it is not preferable to have a direct injection of share capital which is permanent in nature and required cumbersome steps in reducing capital of a company. The Directors confirmed that the entering of the eight subordinated loan arrangements during the Track Record Period were to support the liquid capital for Bright Smart Securities for the purpose of increasing the IPO financings to its clients, and were not requested by the SFC due to Bright Smart Securities failing to meet the FRR requirements.

Set out below is the movement of subordinated loans from Manet Good to the Group for each of the three years ended 31 March 2008, 2009 and 2010:

|                                                   | For the year ended 31 March |            |             |
|---------------------------------------------------|-----------------------------|------------|-------------|
|                                                   | 2008                        | 2009       | 2010        |
|                                                   | (HK\$'000)                  | (HK\$'000) | (HK\$'000)  |
| Balance as at the beginning of the year . . . . . | 100,000                     | —          | —           |
| Drawdown during the year . . . . .                | 428,000                     | —          | 1,355,000   |
| Repayment during the year . . . . .               | (528,000)                   | —          | (1,355,000) |
| Balance as at the end of the year . . . . .       | —                           | —          | —           |

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## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER

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For each of the three years ended 31 March 2008, 2009 and 2010, the maximum drawdown from the eight subordinated loans were approximately HK\$190 million, HK\$Nil and HK\$300 million respectively. There was no subordinated loan outstanding as at 31 March 2008, 2009 and 2010. The Directors confirmed that all subordinated loans will be terminated upon [●]. [●]. Please also refer to the sub-section headed “Subsequent events in relation to the subordinated loans from Manet Good” under the “Financial Information” section for the outstanding subordinated loan as at the Latest Practicable Date.

Without taking into account the requirement for the Group’s additional IPO financing business via the use of subordinated loan, the Directors are of the view that the Group is able to obtain sufficient level of banking facilities without the support from its Controlling Shareholders. As at 31 March 2010, out of the total banking facilities of HK\$1,016 million available to the Group, HK\$575 million was unutilised, which demonstrated that the Group is able to obtain sufficient independent financing from banks.

Mr. Yip had also provided personal guarantees in favour of a bank to secure the Group’s banking facilities. By a letter dated 9 April 2010, the bank agreed to release the personal guarantees provided by Mr. Yip and replace such personal guarantees by a corporate guarantee provided by the Company after the [●]. Details of the personal guarantees are set out in note 25(c)(vii) of the Accountants’ Report set out in Appendix I to this document. Save as disclosed above, the Directors confirmed that, as of the Latest Practicable Date, the Group did not have any outstanding loans due to or from the Controlling Shareholders, or guarantees or assurances have been provided by the Controlling Shareholders for the benefit of the Group. Therefore, the Group is not financially dependent on the Controlling Shareholders.

## CONNECTED TRANSACTIONS

### RELATED PARTIES TRANSACTIONS

#### Non-exempt Continuing Connected Transactions

Upon [●], the following transactions will be regarded as non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules or continuing connected transactions exempted from the independent shareholder’s approvals requirement only under Rule 14A.34 of the Listing Rules.

#### 1. Tenancy Agreements

The Group has entered into several tenancy agreements with the connected persons (collectively known as “Tenancy Agreements”) and under the terms of which, the Group will continue to lease the following premises upon [●], constituting continuing connected transactions of the Group under the Listing Rules:

| Transaction                                                                                                              | Connected relationship                         | Address of the premises                                                                                                     | Annual consideration for the year ended 31 March 2011                                                        | Duration of agreement                                                                                                           |
|--------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| Tenancy made on 1 June 2010 between Bright Smart Securities, as the tenant, and Victory Beauty Limited, as the landlord  | Victory Beauty Limited is Mr. Yip’s associate  | Lease of an office premises at 10/F, Wing On House, 71 Des Voeux Road Central, Hong Kong                                    | Approximately HK\$[6,522,000] with monthly rental being HK\$670,000 (exclusive of management fees and rates) | Fixed term commencing from 9 June 2010 to 31 March 2013 (both days inclusive) with an option to renew for another 3 years.      |
| Tenancy made on 28 May 2010 between Bright Smart Securities, as the tenant, and Great Challenge Limited, as the landlord | Great Challenge Limited is Mr. Yip’s associate | Lease of an office premises at 11/F, Shun Feng International Centre, 182 Queen’s Road East, Wanchai, Hong Kong              | Approximately HK\$[420,000] with monthly rental being HK\$42,000 (exclusive of management fees and rates)    | Fixed term commencing from 1 June 2010 to 31 March 2013 (both days inclusive) with an option to renew for another 3 years.      |
| Tenancy made on 1 March 2010 between Bright Smart Securities, as the tenant, and Well Point Limited, as the landlord     | Well Point Limited is Mr. Yip’s associate      | Lease of an office premises at Mezzanine Floor, Peter Building, 58–60 Queen’s Road Central, 13–17 Stanley Street, Hong Kong | Approximately HK\$[1,842,000] with monthly rental being HK\$160,000 (exclusive of management fees and rates) | Three years commencing from 1 March 2010 to 28 February 2013 (both days inclusive) with an option to renew for another 3 years. |
| Tenancy made on 15 April 2010 between Huge Dynasty Limited, as the tenant and Sea Magic Limited, as the landlord         | Sea Magic Limited is Mr. Yip’s associate       | Lease of an office premise at G/F. & Cockloft, Nos. 141–145, Kwong Fuk Road, Tai Po, New Territories, Hong Kong             | Approximately HK\$1,008,000 with monthly rental being HK\$90,000 (exclusive of management fees and rates)    | Fixed term commencing from 15 April 2010 to 31 March 2013 (both days inclusive) with an option to renew for another 3 years.    |

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## CONNECTED TRANSACTIONS

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*Pricing Standards:* The rental amounts referred to the above in respect of each of the Tenancy Agreements from each of Victory Beauty Limited, Great Challenge Limited, Well Point Limited and Sea Magic Limited are exclusive of government rent, rates and management fees and were agreed in an arm’s length negotiations. DTZ Debenham Tie Leung Limited, the Group’s independent property valuer, has confirmed that the rentals payable under these Tenancy Agreements are determined with reference to the market rate of similar properties in proximity locations in Hong Kong and the Tenancy Agreements were on normal commercial terms and such terms were fair and reasonable.

*Historical Information.* For the three years ended 31 March 2008, 2009 and 2010, the aggregate annual rental expense in connection with the Tenancy Agreements was approximately HK\$5,527,100, HK\$7,379,206 and HK\$4,697,881 respectively.

*Annual Caps.* The Directors expect that the maximum aggregate annual amount payable under the above Tenancy Agreements for the years ending 31 March, 2011, 2012 and 2013 will not exceed HK\$9.8 million, HK\$11.5 million and HK\$11.3 million respectively. The annual caps were arrived at after taking into account of any rent-free period offered to the Group, and do not include management fees and rates. The reasons for the increase of the annual caps for the three years ending 31 March 2013 as compared to the historical figures for the three years ended 31 March 2010 are (i) the Group has taken up a new tenancy in respect of the office premises at Kwong Fuk Road, Tai Po, New Territories; (ii) there was only one month’s rent attributable to the historical figures in respect of Peter Building, Central; and (iii) there has been an upward adjustment in rent in respect of the tenancy agreement of Wing On House in Central, commencing from June 2010, details of which are set in the table above. These annual caps are determined by reference to inter alia, the previous transactions after considered the historical amount of rental made by the Group in the past years.

### 2. *Financial Services*

Prior to the [●], the Group has provided financial services including margin financings (“Margin Financings”) and initial public offering financings (“IPO Financings”, together with Margin Financings, “Financial Services”) to certain directors of the Group and their Associates, where applicable (“Connected Persons”, details of which are set out below), in the ordinary and usual course of business of the Group and on normal commercial terms. It is expected that after the [●], the Group will continue to provide the aforesaid services to the relevant Connected Persons. As such, the provision of the Financial Services to such Connected Persons will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

## CONNECTED TRANSACTIONS

The relevant Connected Persons with whom the Group has entered, or will enter, into continuing connected transactions are as follows:

| <u>Connected Persons</u>                    | <u>Connected relationship</u>                             | <u>Aggregation of transactions</u>                                                                                           |
|---------------------------------------------|-----------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|
| Mr. Yip                                     | Director of the Company                                   | Mr. Yip and his Associates being his sons and certain private companies controlled by Mr. Yip, together as “Mr. Yip’s Group” |
| Madam Hung                                  | Director of Bright Smart Securities and mother of Mr. Yip | Madam Hung                                                                                                                   |
| Chan Wing Shing, Wilson (“Mr. Wilson Chan”) | Director of the Company and nephew of Mr. Yip             | Mr. Wilson Chan and his Associates being his wife, together as “Mr. Wilson Chan’s Group”                                     |
| Chan Kai Fung (“Mr. Chan”)                  | Director of the Company                                   | Mr. Chan and his Associates being his wife and sister, together as “Mr. Chan’s Group”                                        |
| Kwok Sze Chi (“Mr. Kwok”)                   | Director of the Company                                   | Mr. Kwok                                                                                                                     |
| Hui Wah Chiu (“Mr. Hui”)                    | Director of the Company                                   | Mr. Hui                                                                                                                      |

Each of the persons as stated above had individually maintained or is expected to open either a securities and/or a futures/options account with the Group and obtained brokerage services (“Brokerage Services”) and/or Financial Services provided by Group during the Track Record Period or is expected to obtain Brokerage Services and/or Financial Services provided by the Group after the [●], and is either a director of the Group or an Associate of such director, and is therefore each a Connected Person under the definition of the Listing Rules. As certain continuing connected transactions were entered into with the parties connected or otherwise associated with one another, the transactions entered into with such connected parties will be categorized as same class of transactions and will be aggregated into a series of connected transactions for the purpose of calculating the considerations as as referred to in the above table under the column “Aggregation of transactions”.

## CONNECTED TRANSACTIONS

*Historical Information.* During the Track Record Period, some of the relevant Connected Persons had maintained either a securities and/or futures/options trading account with the Group and obtained Financial Services, including IPO Financings and/or Margin Financings, from the Group. The aggregate maximum amounts of financing advanced by the Group and the amounts of interest income received from each category of the relevant Connected Person for the three years ended 31 March 2010 are set out as below:

| Name                                                                                                                                    | Financial Services                          | For the year ended 31 March |                   |                    |
|-----------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|-----------------------------|-------------------|--------------------|
|                                                                                                                                         |                                             | 2008                        | 2009              | 2010               |
|                                                                                                                                         |                                             | HK\$                        | HK\$              | HK\$               |
| Mr. Yip's Group . . . . .                                                                                                               | Maximum amounts of IPO Financings           | 88,625,297                  | 20,605,836        | 221,613,584        |
|                                                                                                                                         | Maximum amounts of Margin Financings        | 31,189,659                  | 1,013             | 973                |
|                                                                                                                                         | Total interest income received              | 705,757                     | 171,653           | 117,617            |
| Madam Hung . . . . .                                                                                                                    | Maximum amounts of IPO Financings           | —                           | 4,848,432         | 24,623,732         |
|                                                                                                                                         | Maximum amounts of Margin Financings        | —                           | 64,721,644        | 82,438,637         |
|                                                                                                                                         | Total interest income received              | —                           | 336,578           | 289,100            |
| Mr. Wilson Chan's<br>Group . . . . .                                                                                                    | Maximum amounts of IPO Financings           | —                           | —                 | —                  |
|                                                                                                                                         | Maximum amounts of Margin Financings        | —                           | —                 | —                  |
|                                                                                                                                         | Total interest income received              | —                           | —                 | —                  |
| <i>Sub-total of Mr. Yip's<br/>Group, Madam Hung<br/>and Mr. Wilson<br/>Chan's Group<br/>(together “Mr. Yip's<br/>Family”) . . . . .</i> | <i>Maximum amounts of IPO Financings</i>    | <i>88,625,297</i>           | <i>25,454,268</i> | <i>246,237,316</i> |
|                                                                                                                                         | <i>Maximum amounts of Margin Financings</i> | <i>31,189,659</i>           | <i>64,722,657</i> | <i>82,439,610</i>  |
|                                                                                                                                         | <i>Total interest income received</i>       | <i>705,757</i>              | <i>508,231</i>    | <i>406,717</i>     |
| Mr. Chan's Group . . . . .                                                                                                              | Maximum amounts of IPO Financings           | 19,454,333                  | 5,409,032         | 49,879,456         |
|                                                                                                                                         | Maximum amounts of Margin Financings        | 1,412,182                   | 723,378           | 1,228,536          |
|                                                                                                                                         | Total interest income received              | 148,421                     | 5,503             | 68,241             |
| Mr. Kwok . . . . .                                                                                                                      | Maximum amounts of IPO Financings           | —                           | —                 | —                  |
|                                                                                                                                         | Maximum amounts of Margin Financings        | —                           | —                 | —                  |
|                                                                                                                                         | Total interest income received              | —                           | —                 | —                  |
| Mr. Hui . . . . .                                                                                                                       | Maximum amounts of IPO Financings           | —                           | —                 | —                  |
|                                                                                                                                         | Maximum amounts of Margin Financings        | —                           | —                 | —                  |
|                                                                                                                                         | Total interest income received              | —                           | —                 | —                  |

*Pricing Standards.* The interest rates charged to the relevant Connected Persons in relation to Margin Financings and IPO Financings were comparable to rates offered to other customers of the Group who are independent third parties of similar credit standing, trading record and quality of collaterals.

## CONNECTED TRANSACTIONS

*Annual Caps.* The proposed annual caps in respect of Margin Financings (“Margin Annual Cap”) and IPO Financings (“IPO Annual Cap”) for each of the three years ending 31 March 2013 (as the case may be) which may be provided by the Group to each of the relevant Connected Persons are set out as follows:

| Name                                 | Annual caps              | For the year ending 31 March |                    |                    |
|--------------------------------------|--------------------------|------------------------------|--------------------|--------------------|
|                                      |                          | 2011                         | 2012               | 2013               |
|                                      |                          | HK\$                         | HK\$               | HK\$               |
| Mr. Yip’s Group . . . . .            | IPO Annual Cap           | 221,600,000                  | 221,600,000        | 221,600,000        |
|                                      | Margin Annual Cap        | 31,200,000                   | 31,200,000         | 31,200,000         |
| Madam Hung . . . . .                 | IPO Annual Cap           | 24,600,000                   | 24,600,000         | 24,600,000         |
|                                      | Margin Annual Cap        | 82,400,000                   | 82,400,000         | 82,400,000         |
| Mr. Wilson Chan’s Group. . .         | IPO Annual Cap           | 20,000,000                   | 20,000,000         | 20,000,000         |
|                                      | Margin Annual Cap        | —                            | —                  | —                  |
| <i>Sub-total of Mr. Yip’s Family</i> | <i>IPO Annual Cap</i>    | <i>266,200,000</i>           | <i>266,200,000</i> | <i>266,200,000</i> |
|                                      | <i>Margin Annual Cap</i> | <i>113,600,000</i>           | <i>113,600,000</i> | <i>113,600,000</i> |
| Mr. Chan’s Group . . . . .           | IPO Annual Cap           | 49,900,000                   | 49,900,000         | 49,900,000         |
|                                      | Margin Annual Cap        | 1,400,000                    | 1,400,000          | 1,400,000          |
| Mr. Kwok . . . . .                   | IPO Annual Cap           | 20,000,000                   | 20,000,000         | 20,000,000         |
|                                      | Margin Annual Cap        | —                            | —                  | —                  |
| Mr. Hui . . . . .                    | IPO Annual Cap           | 20,000,000                   | 20,000,000         | 20,000,000         |
|                                      | Margin Annual Cap        | —                            | —                  | —                  |

Note: The above sub-total of IPO Annual Cap and Margin Annual Cap for Mr. Yip’s Family are used for the purpose of determining the reporting, announcement, annual review and independent shareholders’ approval requirements under the Listing Rules. In addition, each of Mr. Yip’s Group, Madam Hung and Mr. Wilson Chan’s Group will be subject to their respective annual caps for the three years ending 31 March 2013.

In determining the proposed IPO Annual Caps and Margin Annual Caps, the Directors have taken into consideration of the following principal factors (i) the expected interest rates for the three years ending 31 March 2013; (ii) the highest historical amounts of Margin Financings and IPO financings advanced to the relevant Connected Persons for the three years ended 31 March 2010; (iii) the potential or possible amounts of Margin Financings and IPO Financings to be advanced to the relevant Connected Persons for the three years ending 31 March 2013; and (iv) the expected economic conditions and market sentiments of the securities markets in Hong Kong.

It is expected that the Group will enter into 6 agreements (collectively, “**Financial Services Agreements**”) with each of Mr. Yip, Madam Hung, Mr. Wilson Chan, Mr. Chan, Mr. Kwok and Mr. Hui, pursuant to which the Group may, upon request provide to each of them (where applicable,

## CONNECTED TRANSACTIONS

including their Associates) Financial Services, including Margin Financings and/or IPO Financings, from time to time on normal commercial terms at the interest rate comparable to rates offered to other customers of the Group who are independent third parties of similar credit standing, trading record and quality of collaterals given, and in accordance with the credit policy of the Group from time to time. Each Financial Services Agreement is proposed to be for a term commencing from the [●] and ending on 31 March 2013.

### Continuing Connected Transactions exempt from independent shareholders’ approval requirements

#### 3. Brokerage Services

*Historical Information.* The aggregate amount of brokerage commission income paid by the relevant Connected Persons for the Brokerage Services provided by the Group for the three years ended 31 March 2010 are set as below:

| Connected Person category                      | Brokerage commissions income<br>for the year ended 31 March |                  |                |
|------------------------------------------------|-------------------------------------------------------------|------------------|----------------|
|                                                | 2008                                                        | 2009             | 2010           |
|                                                | (HK\$)                                                      | (HK\$)           | (HK\$)         |
| Mr. Yip’s Group . . . . .                      | 442,127                                                     | 200,285          | 133,119        |
| Madam Hung . . . . .                           | 691,200                                                     | 1,043,009        | 704,922        |
| Mr. Wilson Chan’s Group . . . . .              | 334                                                         | 250              | 675            |
| <i>Sub-total of Mr. Yip’s Family . . . . .</i> | <i>1,133,661</i>                                            | <i>1,243,544</i> | <i>838,716</i> |
| Mr. Chan’s Group . . . . .                     | 98,802                                                      | 56,420           | 76,348         |
| Mr. Kwok . . . . .                             | —                                                           | 6,294            | 21,004         |
| Mr. Hui . . . . .                              | —                                                           | —                | —              |

*Note:* The above sub-totals of Mr. Yip’s Family are used for the purpose of determining the reporting, announcement, annual review and independent shareholders’ approval requirements under the Listing Rules.

*Pricing Standard.* The Directors consider that the historical commission and brokerage fees paid by the Connected Persons during the Track Record Period are mainly determined by the pricing policy of the Group which might be affected by the overall economy and stock market sentiment of Hong Kong. The brokerage commission rate charged to each of the Connected Persons was the same as the standard brokerage commission rate charged by the Group to other customers who are independent third parties and in accordance with the pricing policy of the Group.

*Annual Caps.* The Directors expect that the amounts of brokerage commission income payable annually by (i) Madam Hung for each of the three years ending 31 March 2013 will not exceed HK\$1.05 million, HK\$1.05 million and HK\$1.05 million respectively; (ii) except for Madam Hung, it is anticipated that brokerage commission payable by each of the other Connected Persons will not exceed the de minimis threshold; and (iii) Mr. Yip’s Family for each of the three years ending 31 March 2013 will not exceed HK\$1.49 million, HK\$1.49 million and HK\$1.49 million respectively (“Brokerage Annual Caps”).

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## CONNECTED TRANSACTIONS

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In determining the proposed Brokerage Annual Caps, the Directors have taken into consideration the following principal factors: (i) the possible rates of commission and brokerage fees (with the inclusion of a buffer) for the three years ending 31 March 2013; (ii) the highest historical commission and brokerage fees from the relevant Connected Persons for the three years ended 31 March 2010; (iii) the potential brokerage commission to be received from the relevant Connected Persons for the three years ending 31 March 2013; and (iv) the expected economic conditions and market sentiments of the securities markets in Hong Kong.

It is expected the Group will enter into 6 agreements (collectively, “**Brokerage Services Agreements**”) with each of Mr. Yip, Madam Hung, Mr. Wilson Chan, Mr. Chan, Mr. Kwok and Mr. Hui, pursuant to which Bright Smart Securities and Bright Smart Futures may, upon request, provide to each of them (where applicable, including their Associates) Brokerage Services, from time to time on normal commercial terms and at rates comparable to rates offered to other customers of Bright Smart Securities and Bright Smart Futures who are independent third parties of similar credit standing, trading record and quality of collaterals given, and in accordance with the relevant policy of the Group from time to time. Each Brokerage Services Agreement is proposed to be for a term commencing from the [●] and ending on 31 March 2013.

### **Continuing Connected Transactions exempt from reporting, announcement and independent shareholders’ approval requirements and annual review**

Upon the [●], the Brokerage Services to be provided to Mr. Chan’s Group, Mr. Kwok and Mr. Hui will be regarded as continuing connected transactions exempt from reporting, annual review, announcement and independent shareholders’ approval requirements under Rule 14A.33(3) of the Listing Rules. These continuing connected transactions are undertaken on an arm’s length basis and on normal commercial terms or terms no more favorable to the Group and the percentage ratios (other than the profit ratio) on an annual basis is less than 5% and the annual consideration is less than HK\$1.0 million and will be on normal commercial terms. It is expected that after the [●], the Group will continue to provide the Brokerage Services to the Connected Person at rates comparable to rates offered to other customers of Bright Smart Securities and Bright Smart Futures, who are independent third parties of similar credit standing, trading record and quality of collaterals given, and in accordance with the relevant policy of Bright Smart Securities and Bright Smart Futures from time to time.

Please also refer to the sub-section headed “Current internal control system” under the “Business” section for details of the measures taken in connection with dealings by staff, including the executive Directors, to avoid actual or potential conflict of interest and duty.

### **APPLICATION FOR WAIVERS**

Upon completion of the [●], the continuing connected transactions described in:

- (A) “Continuing Connected Transactions exempt from independent shareholders’ approval requirements” under paragraph 3 (Brokerage Services in respect of Mr. Yip’s Group, Madam Hung and Mr. Wilson Chan’s Group) and paragraph 2 (Financial Services provided to Mr. Chan’s Group in respect of Margin Financings) above would be subject to the reporting, annual review and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and is exempt from the prior independent shareholders’ approval requirement set out in Rule 14A.48 of the Listing Rules. As the applicable percentage ratios as defined in

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## CONNECTED TRANSACTIONS

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Rule 14A.10(10) of the Listing Rules (other than the profits ratio) calculated with reference to the annual caps on an annual basis is less than 25% and the annual consideration is less than HK\$10 million and will be on normal commercial terms, the Brokerage Services provided to [Mr. Yip’s Group, Madam Hung and Mr. Wilson Chan’s Group] and the Margin Financings provided to Mr. Chan’s Group respectively will fall within the exemption under Rule 14A.34 of the Listing Rules; and

- (B) “Non-exempt Continuing Connected Transactions” under paragraph 1 (Tenancy Agreements) and paragraph 2 (Financial Services) in respect of (i) IPO Financings for each of the Connected Persons, and (ii) Margin Financings for each of Mr. Yip’s Group and Madam Hung above would, on each occasion on which they arise, be subject to the reporting, announcement, independent shareholders’ approval and annual review requirements set out in Rules 14A.35 of the Listing Rules. As the applicable percentage ratio as defined in Rule 14A.10(10) of the Listing Rules calculated with reference to the annual caps on an annual basis exceeds 25% and the annual consideration is not less than HK\$10 million, such transactions are considered to be non-exempt continuing connected transactions under Rule 14A.35 and would, therefore, be subject to the reporting, announcement, independent shareholders’ approval and annual review requirements set out in Rules 14A.37 to 14A.40, 14A.45 to 14A.48 of the Listing Rules.

The Directors (including the independent non-executive Directors) are of the opinion that each of the relevant continuing connected transactions in respect of (i) Tenancy Agreements; (ii) Financial Services and (iii) Brokerage Services as described above has been and will be conducted, and carried out, in the ordinary course of business of the Group as well as on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Having considered the factors and information mentioned above, the Directors (including the independent non-executive Directors) also consider that the annual caps in respect of (i) Tenancy Agreement; (ii) Financial Services and (iii) Brokerage Services set out above for the relevant continuing connected transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Pursuant to Rule 14A.42(3) of the Listing Rules, the Group has applied to be exempt from strict compliance with the requirements of announcement and independent shareholders’ approval as set out in Rules 14A.47 and 14A.48 of the Listing Rules for the period of three years ending on 31 March 2013 and [the Stock Exchange has granted a waiver in relation thereto.] The Company will comply with the relevant requirements under Chapter 14A of the Listing Rules, including Rules 14A.35(1), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 and 14A.40 upon [●].

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## CONNECTED TRANSACTIONS

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### Confirmation from the [●]

The [●] have reviewed the relevant documents, information and historical figures provided by the Group and have participated in due diligence and discussions with the management teams as well as the legal advisors in connection with the [●]. They have obtained necessary representations and confirmations from the Company and the Directors. Based on the above, the [●] are of the view that the non-exempt continuing connected transactions (including the relevant annual caps and pricing terms which form part of the terms of such transactions) are fundamental to the Group’s business operation, and are in the ordinary course of business, on normal commercial terms, fair and reasonable and in the interests of the Shareholders as a whole.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### DIRECTORS

The Board consists of eight Directors, three of whom are independent non-executive Directors. The Board has the general powers and duties for the management and operation of the Group’s businesses. The Company has entered into service contracts with each of its Directors.

The table below sets forth information regarding the Company’s Directors:

| <u>Name</u>                     | <u>Age</u> | <u>Position</u>                    |
|---------------------------------|------------|------------------------------------|
| Yip Mow Lum . . . . .           | 58         | Chairman and executive Director    |
| Chan Kai Fung . . . . .         | 43         | Executive Director                 |
| Kwok Sze Chi . . . . .          | 55         | Executive Director                 |
| Chan Wing Shing, Wilson . . . . | 46         | Executive Director                 |
| Hui Wah Chiu . . . . .          | 42         | Executive Director                 |
| Yu Yun Kong . . . . .           | 44         | Independent non-executive Director |
| Szeto Wai Sun . . . . .         | 51         | Independent non-executive Director |
| Ling Kwok Fai, Joseph . . . . . | 54         | Independent non-executive Director |

#### Chairman and executive Director

##### *Yip Mow Lum*

**Yip Mow Lum (葉茂林)**, Mr. Yip, aged 58, is the founder, the Controlling Shareholder and chairman of the Company. Mr. Yip was appointed as a Director on 4 August 2009 and designated as an executive Director on 4 August 2010, and is responsible for formulation of corporate strategies, overseeing operations and overall steering of the Group’s management. Mr. Yip was subsequently designated as the chairman of the Board, an executive Director [and was appointed as the chairman of the Company’s remuneration committee and nomination committee on 4 August 2010].

Mr. Yip started his career as a trader for textile quotas on the amount of textile and clothing imports in [Hong Kong]. Mr. Yip was an entrepreneur and earned his first fortune from investing in textile quotas. Later he shifted his focus from textile quotas investment to investing in the [property market] and securities services in Hong Kong.

Mr. Yip established Bright Smart Futures in 1995 and Bright Smart Securities in 1998, and has served as a director of both Bright Smart Securities and Bright Smart Futures since 1998 and 1995 respectively. Mr. Yip is also a director of Merit Act and Bright Smart Investment. Mr. Yip has extensive experience in the securities brokerage industry. Mr. Yip’s engagement in the securities brokerage business could be traced back to the establishment of a company called

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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“Bright Smart Investment Limited” in 1992 and subsequently he became the Responsible Officer of Bright Smart Futures under Type 2 (dealing in futures contracts) regulated activity. Mr. Yip has over 10 years of experience in operating securities and futures businesses.

Mr. Yip is the son of Madam Hung and is also the uncle of Chan Wing Shing, Wilson, another executive Director.

### Executive Directors

#### *Chan Kai Fung*

**Chan Kai Fung** (陳啟峰), Mr. Chan, aged 43, is the chief executive officer of the Company. Mr. Chan was appointed as a Director on 4 August 2009 and designated as an executive Director on 4 August 2010. He became the director of both Bright Smart Securities and Bright Smart Futures in 2005. Mr. Chan is responsible for the formulation of the Group’s policy, overseeing operations and overall steering of the Group’s management focusing on the core areas of marketing and corporate expansion. Mr. Chan has over [8] years of experience in securities and futures business, particularly in IPO financing. Mr. Chan is also a director of Bright Smart Investment.

Mr. Chan completed secondary school education in Hong Kong in 1983. Subsequently, he joined Hong Kong Macau Development Limited and was a senior account clerk until 1989. Prior to joining the Group, Mr. Chan was a director of a securities brokerage company, namely Coin Fall Limited from 1991 to 1994. Mr. Chan was the director of Lucky Man Properties Limited, from 1992 to 1995 and the administration manager of Maxview Enterprises Limited from 1995 to 2003.

#### *Kwok Sze Chi*

**Kwok Sze Chi** (郭思治), Mr. Kwok, aged 55, is [the joint chief operating officer] of the Company and was appointed as an executive Director of the Company on 4 August 2010. Mr. Kwok joined Bright Smart Securities as a marketing director in 2008, and is responsible for formulation of corporate strategy, overseeing operations, investment analysis, staff training and overall steering of the Group’s management focusing on the areas of marketing and business development for both Bright Smart Securities and Bright Smart Futures. Mr. Kwok became the Responsible Officer of Bright Smart Securities under Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities in 2008 and 2009 respectively and is responsible for supervising its daily operations. Mr. Kwok has been a Licensed Representative of Bright Smart Futures under Type 2 (dealing in futures contracts) regulated activity since 2008. Mr. Kwok has over [20] years of experience in securities and futures businesses and has expertise in marketing strategy, securities analysis, corporate management and administration. Mr. Kwok has been holding the post as the director of The Institute of Securities Dealers Limited and the vice chairman of The Hong Kong Institute of Financial Analysts and Professional Commentators Limited since [2001] and 2004 respectively.

In 1990, Mr. Kwok joined Peace Town Securities Limited as the marketing director and worked there for over 10 years. Mr. Kwok was the securities manager of Cheerful Securities Limited from 1981 to 1989. Since 2006, Mr. Kwok has been an independent non-executive director of Victory City International Holdings Limited, a listed company in Hong Kong.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### *Chan Wing Shing, Wilson*

**Chan Wing Shing, Wilson (陳永誠)**, Mr. Chan, aged 46, is the [joint chief operating officer] of the Company and was appointed as an executive Director on 4 August 2010. Mr. Chan has become the Responsible Officer of both Bright Smart Securities under Type 1 (dealing in securities) regulated activity and Bright Smart Futures under Type 2 (dealing in futures contracts) regulated activity since 2003. He became a director of both Bright Smart Securities and Bright Smart Futures in 2003. In 2009, Mr. Chan was further admitted as the Responsible Officer of Bright Smart Securities under Type 4 (advising on securities) regulated activity. Mr. Chan is responsible for supervising the daily operations of Bright Smart Securities and Bright Smart Futures focusing on the core area of dealing operation. Mr. Chan has over [8] years of experience in securities and futures businesses.

Mr. Chan was educated in Hong Kong and undertook the Hong Kong Certificate of Education Examination in 1984. Mr. Chan was previously a dealer in Dashin Securities Limited from 2000 to 2001. Mr. Chan was employed by Bright Smart Securities as a dealer between 1999 and 2000.

Mr. Chan is the nephew of Mr. Yip, an executive Director and the chairman.

### *Hui Wah Chiu*

**Hui Wah Chiu (許華釗) (alias Hui Wah Piu (許華彪))**, Mr. Hui, aged 42, is the chief financial officer of the Company and he joined Bright Smart Securities in February 2010. Mr. Hui was appointed as an executive Director on 4 August 2010. Mr. Hui is responsible for overseeing financial operations and overall steering of the Group’s financial control and management of all financial matters, including management and financial accounting and reporting. Mr. Hui graduated from City University of Hong Kong with a bachelor’s degree of arts in accountancy in 1994. He graduated from the post-graduate school in finance of Tsinghua University of the PRC and obtained a master degree of business administration from The Chinese University of Hong Kong in 2004, which was jointly organised by Tsinghua University of the PRC and The Chinese University of Hong Kong. Mr. Hui has over [10] years of experience in the accounting profession. Mr. Hui has been a member of Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants since 1999 and 1998 respectively.

Prior to joining the Group, Mr. Hui was employed by South East Asia Holdings Limited as a chief financial officer in 2008. Mr. Hui was employed by Chow Sang Sang (China) Company Limited as a general finance and administration manager of PRC (2007–2008). Mr. Hui joined Topsearch Printed Circuits (HK) Limited in 2005 and was a vice president when he left the company in 2006. Mr. Hui joined Sime Darby China Group in 1999 and was an operation and customer services manager when he left the company in 2004. Mr. Hui joined Price Waterhouse in 1994 and was a senior auditor when he left the company in 1998.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### Independent non-executive Directors

#### *Yu Yun Kong*

**Yu Yun Kong** (余韜剛), Mr. Yu, aged 44, was appointed as an independent non-executive Director on 4 August 2010 and was appointed as a member of the Company’s remuneration committee and nomination committee on the same date. Mr. Yu is a practicing certified public accountant with over [10] year of experience in public accounting practice. Mr. Yu obtained a Diploma in Accounting from Shue Yan College in 1991 and is a member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Yu was also an independent non-executive director of Century Legend (Holdings) Limited, a listed company in Hong Kong, for the period from January 2001 to October 2006. Mr. Yu joined C.W. Leung & Co., Certified Public Accountants, in 1992 and was promoted to the position of audit manager in 1995. He is now working as a manager of Shom & Yu CPA Limited.

#### *Szeto Wai Sun*

**Szeto Wai Sun** (司徒維新), Mr. Szeto, aged 51, was appointed as an independent non-executive Director on 4 August 2010 and was appointed as a member of the Company’s remuneration committee and nomination committee on the same date. Mr. Szeto graduated from The University of Hong Kong with a bachelor’s degree in laws (Hons) in 1982, and obtained the Postgraduate Certificate in Laws from the same university in 1983. He was admitted as a solicitor in Hong Kong in 1985 and had worked in a number of law firms in Hong Kong including Chan & Co., Y.T. and Cheung & Co., Edmund before becoming a partner in Szeto W.S & Lee. Mr. Szeto has obtained the Professional Certificate in Chinese Civil & Commercial Law, a course which was jointly organised by Tsinghua University of the PRC and the School of Professional and Continuing Education of The University of Hong Kong in 2002.

#### *Ling Kwok Fai, Joseph*

**Ling Kwok Fai, Joseph** (凌國輝), Mr. Ling, aged 54, was appointed as an independent non-executive Director on 4 August 2010 and was appointed as a member of the Company’s remuneration committee and nomination committee on the same date. [Mr. Ling completed the Higher National Diploma in Business Studies at Derby Lonsdale College of Higher Education in 1981.] He is an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries. He has over [15] years of experience in accounting, finance and administration. Mr. Ling started his career in the accounting department of Chase Manhattan Bank in 1976. He later moved on to accounting work at the First National Bank of Boston for the period from 1981 to 1983. He worked at Hong Kong Telephone Company Limited for seven years since 1983 and was a controller when he left the company in 1990. Mr. Ling then worked in Midland Realty (Holdings) Limited since 1990 and was the executive director when he left the company in 1997. Mr. Ling has been a director and company secretary of a charitable organisation from 2004 onwards.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### SENIOR MANAGEMENT

The Company’s senior management members are Yip Mow Lum, Kwok Sze Chi, Chan Kai Fung, Chan Wing Shing, Wilson, Hui Wah Chiu, Wong Wing Man, Lee Pak and Wong Yee Yin, Hubert. Yip Mow Lum, Kwok Sze Chi, Chan Kai Fung, Chan Wing Shing, Wilson and Hui Wah Chiu are the executive Directors. See the paragraphs headed “Chairman and executive Director” and “Executive Directors” above for the description of their experience.

The table below sets forth information regarding the Company’s senior management members (excluding executive Directors):

| <u>Name</u>                    | <u>Age</u> | <u>Position</u>                                                         |
|--------------------------------|------------|-------------------------------------------------------------------------|
| Wong Wing Man. . . . .         | 39         | Head of Information Technology Department                               |
| Lee Pak . . . . .              | 36         | Responsible Officer of Bright Smart Securities and Bright Smart Futures |
| Wong Yee Yin, Hubert . . . . . | 39         | Company secretary                                                       |

#### *Wong Wing Man*

**Wong Wing Man** (黃穎文), Mr. Wong, aged 39, is the head of Information Technology Department of the Group. Mr. Wong joined Bright Smart Securities as a research and development manager in 2009 and is responsible for the formulation of corporate information technology strategy, administration and development of information technology system. He graduated from the University of Hong Kong with a bachelor degree of engineering in 1993. Mr. Wong is specialised in trading system design and development for over 10 years.

Prior to joining the Group, Mr. Wong was the chief technology officer of Ayers Solutions Limited from 2005 to 2009 and he was responsible for developing its flagship software products — Ayers GTS online securities/futures trading system.

#### *Lee Pak*

**Lee Pak** (李柏), Mr. Lee, aged 36, is the Responsible Officer of both Bright Smart Securities and Bright Smart Futures. Mr. Lee joined Bright Smart Securities in 2004 as a dealer, and he became the Responsible Officer of Bright Smart Securities under Type 1 (dealing in securities) regulated activity and Bright Smart Futures under Type 2 (dealing in futures contracts) regulated activity in 2005. In 2010, Mr. Lee was further admitted as the Responsible Officer of Bright Smart Securities under Type 4 (advising on securities) regulated activity. Mr. Lee is responsible for supervising the daily operation of both Bright Smart Securities and Bright Smart Futures. Mr. Lee has over 8 years of experience in securities business.

Mr. Lee graduated from Christian Alliance College in 1991. Prior to joining the Group, Mr. Lee was employed by Elite Property Advisors Limited as a sales advisor (2003–2004). Mr. Lee was employed by Core Pacific — Yamaichi International (H.K.) Limited as a trader (2000–2003). Mr. Lee was employed by Tanrich Securities Company Limited as an authorised clerk in the

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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dealing department (1997–2000). Mr. Lee was employed by HSBC Investment Bank Asia Limited as a control clerk in the private banking and treasury division (1996–1997). Mr. Lee was employed by Shanghai Commercial Bank Limited as a clerk (1993–1996).

*Wong Yee Yin, Hubert*

**Wong Yee Yin, Hubert** (黃邇言), Mr. Wong, aged 39, is the head of the Legal and Compliance Department. He graduated from the University of Wolverhampton in England and was admitted as a solicitor in Hong Kong in 1999. Before joining the Group in May 2010, he was a solicitor in a number of law firms including, in Messrs. Dibb Lupton Alsop from 1999 to 2002, working as an assistant solicitor in Messrs. Paul K.C. Chan & Partners from 2002 before becoming a partner in 2003, and in Messrs. Ho, Tse, Wai & Partners from 2008 to 2010. Mr. Wong reports directly to the chairman of the Company and the Directors. He is responsible for compliance matters, corporate structuring and internal risk control of the Group. He was appointed as the company secretary of the Company in 8 June 2010.

Save as disclosed above, there is no other information relating to the Directors and the senior management members that needs to be disclosed pursuant to the requirements under Rule 13.51(2) of the Listing Rules.

### COMPANY SECRETARY

**Wong Yee Yin, Hubert** is the company secretary of the Company. See the paragraph headed “Senior Management” above for the description of his experience.

### BOARD COMMITTEES

#### **Audit committee**

The Company established an audit committee on 4 August 2010 with effect from the [●] with written terms of reference in compliance with Rule 3.21 and Rule 3.23 of the Listing Rules. The primary duties of the audit committee are, among other things, to review and supervise the financial reporting process and internal control systems of the Company.

The audit committee comprises of Yu Yun Kong as the chairman, Szeto Wai Sun and Ling Kwok Fai, Joseph as members.

#### **Remuneration committee**

The Company established a remuneration committee on 4 August 2010 with effect from the [●] in compliance with Appendix 14 of the Listing Rules. The primary duties of the remuneration committee are to evaluate and make recommendations to the Board regarding the compensation of the chief executive officer and other executive Directors. In addition, the remuneration committee conducts reviews of the performance, and determines the compensation structure of the senior management. During the Track Record Period, the Directors confirmed that the Group’s remuneration policy for the directors and senior management members of the subsidiaries were based on their experience, level of responsibility and general market conditions. Any discretionary bonus was linked to the business performance of the Group and the individual performance of such directors and senior management

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## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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members. The Company intends to adopt the same remuneration policy after the [●], subject to the review by and the recommendations of the remuneration committee. [Salaries are expected to be raised after the [●].] For details of the Directors’ remuneration during the Track Record Period, please refer to page [●] of Appendix I to this document. For details of the Directors’ expected remunerations for the year ending 31 March 2011, please refer to page [●] of Appendix V to this document.

The remuneration committee comprises of Mr. Yip as the chairman, Yu Yun Kong, Szeto Wai Sun and Ling Kwok Fai, Joseph, as members.

### **Nomination Committee**

The Company established a nomination committee on 4 August 2010 with effect from the [●] to make recommendations to the Board regarding candidates to fill vacancies on the Board.

The nomination committee comprises of Mr. Yip as the chairman, Yu Yun Kong, Szeto Wai Sun and Ling Kwok Fai, Joseph, as members.

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### EMPLOYEES

As of 31 March 2010, the Group had approximately 161 full-time employees. Set out below is a breakdown of the number of full-time employees by function as of the same date:

| <u>Division</u>                                                       | <u>Number of employees</u> | <u>Number<br/>of Responsible<br/>Officers/Licensed<br/>Representatives</u> |
|-----------------------------------------------------------------------|----------------------------|----------------------------------------------------------------------------|
| Directors ( <i>Note</i> ) . . . . .                                   | 5                          | 3                                                                          |
| Dealing Department . . . . .                                          | 19                         | 19                                                                         |
| Customer Services Department . . . . .                                | 80                         | 57                                                                         |
| Marketing Department . . . . .                                        | 4                          | 1                                                                          |
| Settlement Department . . . . .                                       | 8                          | 1                                                                          |
| Accounting Department . . . . .                                       | 8                          | —                                                                          |
| Legal and Compliance Department . . . . .                             | 11                         | 1                                                                          |
| Analyst Department . . . . .                                          | 3                          | 3                                                                          |
| Human Resources, Administration and<br>Personnel Department . . . . . | 17                         | —                                                                          |
| Information Technology Department . . . . .                           | 4                          | —                                                                          |
| Property Department . . . . .                                         | <u>2</u>                   | <u>—</u>                                                                   |
| <b>Total . . . . .</b>                                                | <b><u>161</u></b>          | <b><u>85</u></b>                                                           |

*Note:* Directors refer to the five executive Directors.

[The Group recruits its personnel from the open market. The Group provides technical as well as operational training to all new employees and on-going training for all employees.]

The compensation package of the Group’s employees includes salary, discretionary bonus and other cash subsidies. In general, the Directors confirmed that the Group determines employees’ salaries based on each employee’s qualification, position and seniority and any salary raise, discretionary bonus and promotion is based on evaluation of the performance of employees through the Group’s review system [as well as the business performance of the Group].] During the Track Record Period, the Group adopted discretionary bonus schemes which were applicable to all staff members of the Group with reference to [business targets] and [percentage of bonus] varied from year to year. The basis of the Group’s bonus policy was set with reference to the financial performance of the Company with a designated business target. If such pre-defined target was met for the relevant period, certain percentage of the Group’s profit would normally be distributed as bonus to its staff members. For each of the three years ended 31 March 2008, 2009 and 2010, the Group distributed approximately 8.6%, 6.9% and 11.1% of the profit before bonus and income tax to its staff members. The designated business target was changed from time to time in order to reflect the change in management objective or business environment. As the basis of bonus payment depended on whether the pre-defined target was being met, it was not directly related to the fixed monthly salary of the relevant staff member.]

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## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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In Hong Kong, the Group participates in a mandatory provident fund scheme established under the Mandatory Provident Fund Schemes Ordinance. Contributions to the mandatory provident fund scheme are made by the employees at 5% of their relevant income.

The Group’s employees do not negotiate their terms of employment through any labor union or by way of collective bargaining agreements. As of the Latest Practicable Date, the Group has not experienced any strikes, work stoppages or labor disputes which affected its operations and the Directors consider the Group’s relations with its employees to be good.

### **SHARE OPTION SCHEME**

The Company has conditionally adopted the Share Option Scheme in which certain eligible participants may be granted options to acquire Shares. The Directors believe that the Share Option Scheme will assist in the recruitment and retention of quality executives and employees. The principal terms of the Share Option Scheme are summarised in the section headed “Share Option Scheme” in Appendix V to this document.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following completion of the [●], (taking no account of any Shares which fall to be issued pursuant to the exercise of the [●] and any options which may be granted under the Share Option Scheme), the following entities will exercise, or control the exercise of, 10% or more of the voting power at general meetings of the Company:

| Name                             | Capacity/Nature of interest                         | Number of Shares <sup>(1)</sup>   | Approximate percentage of shareholding |
|----------------------------------|-----------------------------------------------------|-----------------------------------|----------------------------------------|
| Mr. Yip <sup>(2)</sup> . . . . . | Interest in a controlled corporation <sup>(1)</sup> | [●] (L)<br>[●] (S) <sup>(3)</sup> | [67.5%]<br>[●]%                        |
| New Charming . . . . .           | Beneficial owner                                    | [●] (L)<br>[●] (S) <sup>(3)</sup> | [67.5%]<br>[●]%                        |

Notes:

(1) The letter “L” denotes the entity/person’s long position and the letter “S” denotes the entity/person’s short position respectively, in the shares.

(2) Mr. Yip is the sole beneficial owner of New Charming and hence is deemed to be interested in all the Shares held by New Charming.

(3) The shares will be the subject of the [●].

Save as disclosed above and taking no account of any Shares which may be issued pursuant to the exercise of the [●] and any options that may be granted under the Share Option Scheme and assuming the [●] is not exercised, the Directors are not aware of any person who will, immediately following the [●], exercise, or control the exercise of, 10% or more of the voting power at general meetings of the Company.

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**SHARE CAPITAL**

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The share capital of the Company immediately following the [●] will be as follows:

HK\$

*Authorised share capital:*

|               |        |             |
|---------------|--------|-------------|
| 2,000,000,000 | Shares | 600,000,000 |
|---------------|--------|-------------|

*Issued and to be issued, fully paid or credited as fully paid:*

|                      |                                              |                      |
|----------------------|----------------------------------------------|----------------------|
| <u>[500,000,000]</u> | Shares in issue at the date of this document | <u>[150,000,000]</u> |
|----------------------|----------------------------------------------|----------------------|

*Total.*

|            |        |            |
|------------|--------|------------|
| <u>[●]</u> | Shares | <u>[●]</u> |
|------------|--------|------------|

**ASSUMPTIONS**

This table assumes the [●] becomes unconditional. It takes no account of any Shares that may be issued and allotted upon exercise of the [●] and any options which may be granted under the Share Option Scheme or any Shares which may be allotted, issued or repurchased by the Company under the general mandate granted to the Directors.

**RANKING**

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

**SHARE OPTION SCHEME**

The Company has conditionally adopted the Share Option Scheme whereby certain eligible participants (including, without limitation, directors, employees, advisors, consultants, suppliers, clients and agents of the Company or its subsidiaries) may be granted options to subscribe for Shares. The principal terms of the Share Option Scheme are summarised in the paragraph headed “Share Option Scheme” in Appendix V to this document.

**ISSUING MANDATE**

The Directors have been granted a general unconditional mandate (“Issuing Mandate”) to allot, issue and deal with unissued Shares with an aggregate nominal value not exceeding the sum of:

- 20% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the [●] excluding any Shares which may be issued pursuant to the exercise of the [●] or exercise of options that may be granted under the Share Option Scheme; and

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## SHARE CAPITAL

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- the aggregate nominal amount of the share capital of the Company which may be repurchased by the Company (if any) pursuant to the Repurchase Mandate (as defined below) up to a maximum equivalent of 10% of the total nominal value of the share capital of the Company in issue immediately following completion of the [●] excluding the Shares which may be issued pursuant to the exercise of [●] or any options which may be granted under the Share Option Scheme.

The Directors may, in addition to the Shares which they are authorised to issue under the Issuing Mandate, allot, issue and deal in the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of subscription or conversion rights attaching to any warrants of the Company, scrip dividends scheme or similar arrangements, the grant of options under the Share Option Scheme or the exercise of any options that may be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted.

The Issuing Mandate will expire:

- on the conclusion of the Company’s next annual general meeting; or
- upon the expiration of the period within which the Company is required by law or the Articles to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders,

whichever occurs first.

Further information on the Issuing Mandate is set out under “Further information about the Group — Resolutions in writing of all Shareholders passed on 4 August 2010” in Appendix V to this document.

## REPURCHASE MANDATE

The Directors have been granted a general unconditional mandate (“Repurchase Mandate”) to exercise all the powers of the Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the [●] (taking no account of any Shares which may be issued pursuant to the exercise of the [●] or exercise of any options which may be granted under the Share Option Scheme).

The Repurchase Mandate relates only to repurchases made on the Stock Exchange and/or on any other stock exchange on which the Shares are listed (and which are recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with the Listing Rules. A summary of the relevant requirements under the Listing Rules is set forth under “Repurchase by the Company of its own securities” in Appendix V to this document.

The Repurchase Mandate will expire:

- on the conclusion of the Company’s next annual general meeting; or
- upon the expiration of the period within which the Company is required by law or the Articles to hold its next annual general meeting; or

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## SHARE CAPITAL

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- when varied or revoked by an ordinary resolution of the Shareholders,

whichever occurs first.

Further information on the Repurchase Mandate is set out under “Further information about the Group — Resolutions in writing of all Shareholders passed on 4 August 2010” and “Further information about the Company — Repurchase by the Company of its own securities” in Appendix V to this document.

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## FINANCIAL INFORMATION

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**You should read this section in conjunction with the audited combined financial information as of and for each of the three years ended 31 March 2008, 2009 and 2010, together with the accompanying notes in the Accountants’ Report in Appendix I to this document. The combined financial information is prepared in accordance with HKFRS, which may differ in certain material respects from generally accepted accounting principles in other jurisdictions. The following discussion contains forward-looking statements that involve risks and uncertainties. Accordingly, you should not place undue reliance on any such statements. The future results could differ materially from those discussed in the forward-looking statements as a result of various factors, including those set forth under the section entitled “Risk Factors” in this document.**

**For the purpose of this section, and unless the context otherwise requires, references to “2008”, “2009” and “2010” refer to the Group’s financial year ended 31 March of such year.**

### OVERVIEW

The Group is one of the well-established securities brokerage houses with low brokerage commission rates and primarily focuses on providing online brokerage services in Hong Kong. The Group has now extended its service coverage from securities, futures and options brokerage in Hong Kong to a wide range of financial products traded in the US and Singapore exchanges. The Group also offers credit facilities to its clients who would like to purchase securities on a margin basis.

Leveraging on its efficient and secure online trading system and low brokerage commission rates, the Group has successfully built up its client base rapidly and recorded significant growth in the number of new securities and futures trading clients during the Track Record Period. As at 31 March 2010, the Group has 7,736 Active Securities Trading Clients and 1,177 Active Futures and Options Trading Clients. According to the information from the HKEx, since the first half of 2006, Bright Smart Securities has been qualified as a Constituency B Exchange Participant which represented the group of Exchange Participants ranked fifteenth to sixty-fifth in terms of market share, with the market share of Bright Smart Securities increasing in general since then.

During the Track Record Period, turnover of the Group represented brokerage commissions from securities, commodities and futures broking and interest income from margin and IPO financings. For 2008, 2009 and 2010, turnover derived by the Group were approximately HK\$176.4 million, HK\$78.7 million and HK\$140.2 million respectively, and the net profit and comprehensive income attributable to equity holders of the Company for the same years were approximately HK\$60.1 million, HK\$21.1 million and HK\$60.3 million respectively. Net profit margin of the Group for 2008, 2009 and 2010 were approximately 34.1%, 26.8% and 43.0% respectively.

### BASIS OF PRESENTATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 4 August 2009, in preparation for the [●]. Following the Reorganisation, the Company became the holding company of all the subsidiaries of the Group.

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## FINANCIAL INFORMATION

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The financial information of the Group during the Track Record Period has been prepared using the merger basis of accounting as if the Reorganisation had occurred as at the beginning of the Track Record Period. Accordingly, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group as set out in Appendix I to this document for the Track Record Period include the results of operations of the companies now comprising the Group for the Track Record Period as if the current group structure had been in existence throughout the entire Track Record Period. The combined balance sheets of the Group as at 31 March 2008, 2009 and 2010 have been prepared to present the state of affairs of the companies comprising the Group as at the respective dates as if the current group structure had been in existence as at the respective dates. Intra-group balances and transactions have been eliminated in full in preparing the financial information of the Group during the Track Record Period.

Further details are set out in the Accountants’ Report of the Group in Appendix I to this document.

### KEY FACTORS AFFECTING THE GROUP’S RESULTS OF OPERATIONS

Due to the business nature of the Group, the financial performance of the Group is directly related to the number and size of securities and futures transactions executed by the Group on behalf of its clients. As the Group mainly focuses on the Hong Kong market and relies on its online securities and futures trading systems to conduct its businesses, the Directors believe that the key factors affecting the Group’s results of operations include:

- (i) performance of the Hong Kong securities and derivatives markets
- (ii) capacity of the Group’s trading systems
- (iii) the intensity of competition in the brokerage industry
- (iv) change in regulatory environment in the Hong Kong securities industry
- (v) the movement of interest rates

## FINANCIAL INFORMATION

|                                                                                  | As at 31 March      |              |              |
|----------------------------------------------------------------------------------|---------------------|--------------|--------------|
|                                                                                  | 2008                | 2009         | 2010         |
| <b>Key market indicators of the Hong Kong securities and derivatives markets</b> |                     |              |              |
| Hang Seng Index (“HSI”) . . . . .                                                | 22,849.2            | 13,576.0     | 21,239.4     |
| Number of listed companies on the Stock Exchange                                 |                     |              |              |
| Main Board . . . . .                                                             | 1,055               | 1,092        | 1,158        |
| GEM . . . . .                                                                    | 189                 | 174          | 174          |
|                                                                                  | 1,244               | 1,266        | 1,332        |
| Market capitalisation (\$ billion)                                               |                     |              |              |
| Main Board . . . . .                                                             | HK\$16,825.3        | HK\$10,080.8 | HK\$17,920.9 |
| GEM . . . . .                                                                    | HK\$112.7           | HK\$47.0     | HK\$134.7    |
|                                                                                  | HK\$16,938.0        | HK\$10,127.8 | HK\$18,055.6 |
|                                                                                  | Year ended 31 March |              |              |
|                                                                                  | 2008                | 2009         | 2010         |
| Average daily turnover (\$ billion)                                              |                     |              |              |
| Main Board . . . . .                                                             | HK\$99.0            | HK\$58.7     | HK\$66.7     |
| GEM . . . . .                                                                    | HK\$0.7             | HK\$0.1      | HK\$0.4      |
|                                                                                  | HK\$99.7            | HK\$58.8     | HK\$67.1     |
| Annual turnover (\$ billion)                                                     |                     |              |              |
| Main Board . . . . .                                                             | HK\$24,147.6        | HK\$14,378.7 | HK\$16,679.3 |
| GEM . . . . .                                                                    | HK\$161.6           | HK\$34.9     | HK\$103.1    |
|                                                                                  | HK\$24,309.2        | HK\$14,413.6 | HK\$16,782.4 |
| Number of IPOs                                                                   |                     |              |              |
| Main Board* . . . . .                                                            | 79                  | 44           | 74           |
| GEM . . . . .                                                                    | 2                   | 2            | 5            |
|                                                                                  | 81                  | 46           | 79           |
| IPO fund raised (\$ billion)                                                     |                     |              |              |
| Main Board# . . . . .                                                            | HK\$303.4           | HK\$34.3     | HK\$280.3    |
| GEM . . . . .                                                                    | HK\$2.0             | HK\$0.2      | HK\$0.4      |
|                                                                                  | HK\$305.4           | HK\$34.5     | HK\$280.7    |
| Average daily contract volume of futures and options . . . . .                   | 409,907             | 411,936      | 404,858      |
| Total annual contract volume of futures and options . . . . .                    | 99,402,359          | 100,306,318  | 100,607,170  |

\* Comprised both newly listed companies and companies transferred from the GEM

# All funds raised are attributed to the IPOs of newly listed companies

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## FINANCIAL INFORMATION

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### Performance of the Hong Kong securities and derivatives markets

#### *The securities market*

The stockbroking industry relies on the securities and derivatives markets in Hong Kong, the performance of which are in turn highly dependent on the domestic and global economic conditions which are beyond the control of the Group.

The global economy was seriously hampered by the financial tsunami which swept across the world from the second half of 2008 to the first half of 2009. The domestic securities market also suffered a significant downturn in 2008 under the global financial crisis.

The HSI declined from approximately 22,849.2 points as at 31 March 2008 to approximately 13,576.0 points as at 31 March 2009, a decrease of approximately 40.6%. On 16 November 2009, the HSI reached its highest level of 2009 at approximately 22,944.0 points and closed at approximately 21,239.4 points as at 31 March 2010, an increase of approximately 56.4% as compared with that as at 31 March 2009.

The total market capitalisation of the securities market, including the Main Board and the GEM, decreased by approximately 40.2%, from approximately HK\$16,938.0 billion as at 31 March 2008 to approximately HK\$10,127.8 billion as at 31 March 2009, which then increased by approximately 78.3% to approximately HK\$18,055.6 billion as at 31 March 2010.

Trading volume on the Main Board and the GEM for the year ended 31 March 2009 also contracted as compared with the previous year. The average daily turnover of the Main Board and the GEM for the year ended 31 March 2009 dropped by approximately 41.0% from approximately HK\$99.7 billion for the year ended 31 March 2008 to approximately HK\$58.8 billion for the year ended 31 March 2009. For the year ended 31 March 2010, the average daily turnover of the Main Board and the GEM was approximately HK\$67.1 billion, representing an increase of approximately 14.1% as compared with the previous year.

Total securities market turnover decreased by approximately 40.7% from HK\$24,309.2 billion for the year ended 31 March 2008 to approximately HK\$14,413.6 billion for the year ended 31 March 2009, which then increased by approximately 16.4% to approximately HK\$16,782.4 billion for the year ended 31 March 2010.

#### *The derivatives market*

As for the derivatives (futures and options) market, for the year ended 31 March 2008, the annual trading volume of this market reached approximately 99.4 million contracts. The derivatives market was more active for the year ended 31 March 2009, in which the annual trading volume of the derivatives market increased by approximately 0.9% to approximately 100.3 million contracts. For the year ended 31 March 2010, the annual trading volume of the derivatives market further increased to approximately 100.6 million contracts a slight increase by approximately 0.3%.

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## FINANCIAL INFORMATION

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### *Affecting the performance of the Group*

As at 1 April 2007, the HSI was approximately 19,801.9 points. It reached a new record closing of approximately 31,638 points on 30 October 2007 and closed at approximately 22,849.2 points as at 31 March 2008. As a result of the growth momentum of the Hong Kong securities and derivative markets in 2007, the Group recorded a net profit attributable to equity shareholders of approximately HK\$60.1 million for the year ended 31 March 2008.

However, due to the fact that the securities market was in a downward trend with contracting total market turnover, and less margin financings were offered for subscription of IPOs for the year ended 31 March 2009, total turnover of the Group, including brokerage commission income (net of brokerage commission rebate to clients) deriving from securities and futures trading and interest income from margin and IPO financings, decreased by approximately 55.3% from approximately HK\$176.4 million in the year ended 31 March 2008 to approximately HK\$78.7 million in the same period in 2009. For the year ended 31 March 2009, the net profit attributable to equity shareholders was approximately HK\$21.1 million.

In 2010, the securities market recovered from downturn caused by the global financial crisis. As compared with 2009, the total market turnover increased by approximately 16.4% to approximately HK\$16,782.4 billion in 2010. In addition, the increase in both the number of IPOs and the amount of IPO fund raised gave rise to a remarkable increase in interest income from IPO financing for the year ended 31 March 2010. As a result, the Group achieved a net profit attributable to equity shareholders of approximately HK\$60.3 million in 2010, representing an increase of approximately 185.2% as compared with the previous year.

### **Capacity of the Group’s trading systems**

As the Group highly relies on its online securities and futures trading systems to generate its revenue, the capacity of the Group’s trading systems thus plays an important role in ensuring that the Group is capable of executing stock transactions in a prompt and accurate fashion. The trading capacity of the Group can in turn be measured by the throttle rate which determines the rate at which trade orders can be sent through an open gateway to the AMS/3 by the Group. The standard throttle rate is one order per second.

As at the Latest Practicable Date, Bright Smart Securities held 14.25 throttle rates subscribed from the Stock Exchange, which translated to a capacity of processing 14.25 transaction orders per second. During the six months from 1 October 2009 to 31 March 2010, the average utilisation rate of Bright Smart Securities’ securities trading capacity in terms of throttle usage was approximately 5.3% calculated based on approximately 12,270 orders a day placed by clients (which is the maximum number of orders placed in a day during the period) divided by Bright Smart Securities’ trading capacity of approximately 230,850 orders a day (which is based on its 14.25 throttle rates and assuming 4.5 trading hours). Maximum utilisation of securities trading capacity usually occurs at peak hours when the trading session just starts. Any short of trading capacity of the online trading systems may adversely affect the Group’s operations and thus its financial performance. Depending on the business need of the Group in the future, the Directors confirmed that the Group is capable of increasing its throttle rates without substantial costs incurred. As at the Latest Practicable Date, the one-time charge by HKEx for each additional throttle rate was HK\$100,000.

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## FINANCIAL INFORMATION

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### **The intensity of competition in the brokerage industry**

The Group’s results of operations are, to some extent, dependent on the intensity of competition among the brokerage industry in Hong Kong. The more intense the competition is, the less likely the Group is able to maintain its market share in the securities and derivatives industry in Hong Kong.

As at 31 March 2010, there were 499 Stock Exchange Participants and 171 Futures Exchange Participants. The industry faces intense competition for its stockbroking, futures and options trading and financing businesses from domestic trading firms as well as licensed banks which offer similar services through their stockbroking arms. Such intense competition may adversely affect the Group’s market share in the securities and derivatives industry in Hong Kong and therefore its financial performance.

### **Change in regulatory environment in the Hong Kong securities industry**

The securities market in Hong Kong is highly regulated. The businesses operated by the Group are classified as regulated activities under the SFO and the Group’s operating subsidiaries, namely Bright Smart Securities and Bright Smart Futures, and their Responsible Officers and Licensed Representatives are required under the SFO to be licensed by the SFC and be subject to any rules and regulations promulgated by the SFC. As securities and futures trading activities are executed through the Stock Exchange or Futures Exchange, the operating subsidiaries are also subject to the regulations from time to time introduced by the two exchanges. Furthermore, as a licensed corporation, the Group shall at all times maintain liquid capital which is not less than the required liquid capital as stipulated under the FRR. Any changes in these laws, rules and regulations may affect the Group’s businesses and therefore and its results of operations.

### **The movement of interest rates**

The fluctuation of interest rates affects the Group’s businesses and therefore its results of operations in different ways. An increase in interest rates may generally lead to an increase in the Group’s interest income arising from margin and IPO financings as well as an increase in the Group’s finance cost on bank borrowings. It would adversely affect the Group’s businesses and its financial results if the Group’s interest rate spread for the margin and IPO financing businesses is reduced. Moreover, an increase in interest rates may have an adverse impact on the financial markets, especially the securities market, and the market sentiment, which may indirectly affect the Group’s results of operations adversely.

## **CRITICAL ACCOUNTING POLICIES**

The preparation of the financial information of the Group in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires the management of the Group to exercise its judgment in the process of applying accounting policies. Therefore, the financial information included in this document may not necessarily reflect the results of operations, financial position and cash flows of the Group in the future or what they would have been had the Group been a separate, stand-alone entity during the periods presented.

Critical accounting policies are those accounting policies that are reflective of significant judgments and uncertainties and that potentially yield materially different results under different assumptions and conditions.

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## FINANCIAL INFORMATION

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When reviewing the combined financial information of the Group, you should consider (i) the selection of critical accounting policies, (ii) the judgment and other uncertainties affecting the application of such policies, and (iii) the sensitivity of reported results to changes in conditions and assumptions. The Directors believe that the following accounting policies involve the most significant judgment and estimates used in the preparation of the combined financial information of the Group. In addition, the revenue recognition policy is discussed below because of its significance, even though it does not involve significant estimates or judgments.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) *Brokerage commission income*

Brokerage commission income is recognised on a trade date basis when the relevant transactions are executed. Volume rebate to customers is recognised as a reduction in brokerage commission income when payment of the rebate is probable and the amounts can be estimated reliably. The fair value of the consideration received or receivable in respect of the initial trade under customer loyalty programmes is allocated between the award credits and other components of the trade by reference to their relative fair value. The award credits are deferred and revenue is recognised only when the Group fulfils its obligation to provide free or discounted brokerage services.

(ii) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

(iii) *Handling and settlement fee income*

Handling and settlement fee income are recognised when the related services are rendered.

### Depreciation of fixed assets

Depreciation of fixed assets is calculated to write off the cost of items of fixed assets, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

|                          |                                                    |
|--------------------------|----------------------------------------------------|
| — Leasehold improvements | shorter of the unexpired term of lease and 3 years |
| — Motor vehicles         | 5 years                                            |
| — Office equipment       | 5 years                                            |
| — Furniture and fixtures | 5 years                                            |
| — Computers and software | 5 years                                            |

Both the useful life of an asset and its residual value, if any, are reviewed annually.

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## FINANCIAL INFORMATION

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### Impairment of assets

#### (i) *Impairment of accounts receivables and other receivables*

Accounts receivable and other receivables that are carried at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For accounts receivable and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset’s carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior periods.

#### (ii) *Impairment of fixed assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that fixed assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset’s recoverable amount is estimated.

#### — Calculation of recoverable amount

The recoverable amount of an asset is the greater of its 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

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## FINANCIAL INFORMATION

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— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment loss is limited to the asset’s carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

### Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

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The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### **Provisions and contingent liabilities**

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

## FINANCIAL INFORMATION

### RESULTS OF OPERATIONS

The table below is the selected financial data of the Group as extracted from the Accountants’ Report included in Appendix I to this document:

#### Combined statements of comprehensive income

|                                                                                                             | Year ended 31 March |                   |                   |
|-------------------------------------------------------------------------------------------------------------|---------------------|-------------------|-------------------|
|                                                                                                             | 2008                | 2009              | 2010              |
|                                                                                                             | HK\$                | HK\$              | HK\$              |
| <b>Turnover</b> . . . . .                                                                                   | 176,353,024         | 78,742,697        | 140,240,061       |
| <b>Other revenue</b> . . . . .                                                                              | 13,596,241          | 13,598,223        | 15,858,301        |
| <b>Other net (loss)/gain</b> . . . . .                                                                      | (451,822)           | (388,456)         | 98,558            |
|                                                                                                             | 189,497,443         | 91,952,464        | 156,196,920       |
| Staff costs . . . . .                                                                                       | (22,383,705)        | (22,618,027)      | (36,235,322)      |
| Depreciation . . . . .                                                                                      | (2,537,556)         | (3,506,427)       | (3,608,315)       |
| Other operating expenses . . . . .                                                                          | (32,733,432)        | (38,040,632)      | (35,743,667)      |
| <b>Profit from operations</b> . . . . .                                                                     | 131,842,750         | 27,787,378        | 80,609,616        |
| Finance costs . . . . .                                                                                     | (59,702,174)        | (2,775,718)       | (8,398,836)       |
| <b>Profit before taxation</b> . . . . .                                                                     | 72,140,576          | 25,011,660        | 72,210,780        |
| Income tax . . . . .                                                                                        | (12,056,535)        | (3,876,306)       | (11,926,761)      |
| <b>Net profit and total comprehensive income attributable to equity shareholders for the year</b> . . . . . | <u>60,084,041</u>   | <u>21,135,354</u> | <u>60,284,019</u> |
| <b>Earnings per share</b>                                                                                   |                     |                   |                   |
| Basic and diluted (cents) . . . . .                                                                         | <u>12.02</u>        | <u>4.23</u>       | <u>12.06</u>      |

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### Description of selected income statement items

#### Turnover

The Group generates its turnover from the provision of securities, futures and options brokerage services, margin and IPO financings. Turnover represents the (i) brokerage commission from securities, futures and options brokerage, net of any brokerage commission rebate to clients; (ii) interest income from margin financing; and (iii) interest income from IPO financing. The table below presents, for the years indicated, the Group’s turnover in terms of monetary value and as a percentage of the total turnover:

|                                | Year ended 31 March |       |                     |       |                     |       |
|--------------------------------|---------------------|-------|---------------------|-------|---------------------|-------|
|                                | 2008                |       | 2009                |       | 2010                |       |
|                                | HK\$                | %     | HK\$                | %     | HK\$                | %     |
| Gross brokerage commission —   |                     |       |                     |       |                     |       |
| securities brokerage . . . . . | 153,329,580         |       | 105,638,208         |       | 138,647,023         |       |
| Less: brokerage commission     |                     |       |                     |       |                     |       |
| rebate . . . . .               | <u>(53,015,618)</u> |       | <u>(43,313,540)</u> |       | <u>(45,944,407)</u> |       |
| Net brokerage commission —     |                     |       |                     |       |                     |       |
| securities brokerage . . . . . | <u>100,313,962</u>  | 56.9% | <u>62,324,668</u>   | 79.1% | <u>92,702,616</u>   | 66.1% |
| Gross brokerage commission —   |                     |       |                     |       |                     |       |
| futures and options brokerage  | 3,836,507           |       | 11,413,592          |       | 26,586,120          |       |
| Less: brokerage commission     |                     |       |                     |       |                     |       |
| rebate . . . . .               | <u>(29,258)</u>     |       | <u>(1,201,844)</u>  |       | <u>(4,649,743)</u>  |       |
| Net brokerage commission —     |                     |       |                     |       |                     |       |
| futures and options brokerage  | <u>3,807,249</u>    | 2.1%  | <u>10,211,748</u>   | 13.0% | <u>21,936,377</u>   | 15.6% |
| Total net brokerage commission | <u>104,121,211</u>  | 59.0% | <u>72,536,416</u>   | 92.1% | <u>114,638,993</u>  | 81.7% |
| Interest income from margin    |                     |       |                     |       |                     |       |
| financing . . . . .            | 16,226,366          | 9.2%  | 6,040,728           | 7.7%  | 15,488,669          | 11.0% |
| Interest income from IPO       |                     |       |                     |       |                     |       |
| financing . . . . .            | <u>56,005,447</u>   | 31.8% | <u>165,553</u>      | 0.2%  | <u>10,112,399</u>   | 7.3%  |
| Total interest income from     |                     |       |                     |       |                     |       |
| margin and IPO financings .    | <u>72,231,813</u>   | 41.0% | <u>6,206,281</u>    | 7.9%  | <u>25,601,068</u>   | 18.3% |
|                                | <u>176,353,024</u>  | 100%  | <u>78,742,697</u>   | 100%  | <u>140,240,061</u>  | 100%  |

The Group generates a substantial portion of its turnover from the securities brokerage business. For 2008, 2009 and 2010, the Group’s brokerage commission (net of rebate) received from its securities brokerage business amounted to approximately HK\$100.3 million, HK\$62.3 million and HK\$92.7 million respectively, and represented approximately 56.9%, 79.1% and 66.1% respectively of the Group’s turnover. The increase in securities brokerage business’ portion of turnover during 2009 was

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mainly due to the significant decrease in the Group’s interest income from IPO financing. On the other hand, the decrease in securities brokerage business’ portion of turnover during 2010 was mainly due to the significant increase in both the Group’s interest income from IPO financing and also the futures and options brokerage commission. At the same time, the Group’s futures and options brokerage business were growing fast during the Track Record Period, with the brokerage commission (net of rebate) received from its futures and options brokerage business for 2008, 2009 and 2010 amounted to approximately HK\$3.8 million, HK\$10.2 million and HK\$21.9 million respectively, and represented approximately 2.1%, 13.0% and 15.6% respectively of the Group’s turnover. The increase in futures and options brokerage business’ portion of turnover during 2009 and 2010 was mainly attributable to (i) the launch of the Group’s online trading platform for its futures and options trading in October 2007, which helped to attract more [clients and therefore more turnover] from them; and (ii) the full-year effect of the operation of the online futures trading platform in 2009.

Brokerage commission rebate represents the amount of brokerage commission returned to client when the trading volume of a particular client reaches certain monetary level, as a type of reward to clients to encourage higher volume of transactions. As at the Latest Practicable Date, effective brokerage commission rate could be as low as 0.01% for individual clients with monthly securities transaction amounts above certain monetary level. For 2008, 2009 and 2010, the Group incurred brokerage commission rebate for its securities brokerage business of approximately HK\$53.0 million, HK\$43.3 million and HK\$45.9 million respectively, and incurred brokerage commission rebate for its futures and options brokerage business of approximately HK\$29,000, HK\$1.2 million and HK\$4.6 million respectively.

The Group runs customer loyalty programmes that comply with Hong Kong (IFRIC) Interpretation 13 — Customer Loyalty Programmes. For details of the accounting policies, please refer to Note 1 to the Accountants’ Report contained in Appendix I to this document.

Interest income includes interest income from margin and IPO financings provided to clients for purchase of securities. For 2008, 2009 and 2010, interest income from margin and IPO financings represented approximately 41.0%, 7.9% and 18.3% respectively of the Group’s turnover. Interest rates charged by the Group to margin clients and IPO financing clients during the Track Record Period ranged from 3.68% to 7.5% per annum and 0.5% to 6.7% per annum respectively.

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### *Other revenue*

Other revenue comprises interest income from authorised institutions, overdue interest from cash clients, handling and settlement fees and sundry income. The following table sets forth the breakdowns of the Group’s other revenue during the Track Record Period:

|                                       | Year ended 31 March      |                          |                          |
|---------------------------------------|--------------------------|--------------------------|--------------------------|
|                                       | 2008                     | 2009                     | 2010                     |
|                                       | HK\$                     | HK\$                     | HK\$                     |
| Interest income from                  |                          |                          |                          |
| — Authorised institutions . . . . .   | 6,988,646                | 4,477,199                | 202,527                  |
| — Others . . . . .                    | <u>1,032,999</u>         | <u>811,862</u>           | <u>2,814,588</u>         |
|                                       | 8,021,645                | 5,289,061                | 3,017,115                |
| Handling and settlement fees. . . . . | 5,435,274                | 7,998,870                | 12,418,586               |
| Sundry income . . . . .               | <u>139,322</u>           | <u>310,292</u>           | <u>422,600</u>           |
|                                       | <u><u>13,596,241</u></u> | <u><u>13,598,223</u></u> | <u><u>15,858,301</u></u> |

Interest income from authorised institutions represents mainly interest received from banks. Interest income from others mainly represents interest charged for late settlement of consideration for securities purchase beyond T+2 for cash clients. These overdue interests are usually charged at higher interest rates than normal margin financing interest rates charged by the Group for margin clients.

Handling and settlement fees consist of service fees charged on clients mainly for securities, futures and options settlement, and handling other corporate actions such as script dividends and right issues.

### *Staff costs*

Staff costs of the Group comprise salaries, allowances and benefits in kind, discretionary bonuses and contributions to the mandatory provident fund incurred in relation to the directors and employees of the Group. For 2008, 2009 and 2010, staff costs represented approximately 38.8%, 35.2% and 47.9% of the Group’s total operating expenses (which includes staff costs, depreciation and other operating expenses) respectively. Please also refer to the section headed “Directors, senior management and employees” in this document for details of the staff bonus schemes adopted by the Group during the Track Record Period.

### *Other operating expenses*

Other operating expenses comprised primarily advertising and promotion expenses, handling and settlement expenses, information and communication expenses, management fee and operating lease payments. For 2008, 2009 and 2010, other operating expenses accounted for approximately 56.8%,

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59.3% and 47.3% of the Group’s total operating expenses (which includes staff costs, depreciation and other operating expenses) respectively. Set out below are the breakdowns of the Group’s other operating expenses during the Track Record Period.

|                                              | Year ended 31 March |                   |                     |
|----------------------------------------------|---------------------|-------------------|---------------------|
|                                              | 2008                | 2009              | 2010                |
|                                              | HK\$                | HK\$              | HK\$                |
| Advertising and promotion expenses . . . . . | 4,767,493           | 8,981,533         | 3,639,110           |
| Auditors’ remuneration. . . . .              | 140,800             | 132,800           | 500,000             |
| Commission expense to overseas brokers . .   | —                   | 24,378            | 1,222,037           |
| Handling and settlement expenses . . . . .   | 8,941,860           | 7,622,085         | 10,157,947          |
| Information and communication expenses . .   | 5,929,773           | 8,026,908         | 9,009,477           |
| Legal and professional fees. . . . .         | 208,393             | 801,432           | 300,486             |
| Management fee . . . . .                     | 1,200,000           | —                 | —                   |
| Operating lease payments — property rentals  | 6,272,274           | 7,644,646         | 5,001,547           |
| Rates and building management fee . . . . .  | 906,221             | 939,704           | 1,005,676           |
| Miscellaneous expenses . . . . .             | 4,366,618           | 3,867,146         | 4,907,387           |
|                                              | <u>32,733,432</u>   | <u>38,040,632</u> | <u>[35,743,667]</u> |

Advertising and promotion expenses mainly represent marketing expenses associated with placing advertisements through various media including newspapers, magazines, television and radio. For 2008, 2009 and 2010, advertising and promotion expenses accounted for approximately 8.3%, 14.0% and 4.8% of the Group’s total operating expenses (which includes staff costs, depreciation and other operating expenses) respectively.

Handling and settlement expenses represent service fees charged by [●] mainly for securities, futures and options settlement, which accounted for approximately 15.5%, 11.9% and 13.4% of the Group’s total operating expenses (which includes staff costs, depreciation and other operating expenses) for 2008, 2009 and 2010 respectively.

Information and communication expenses mainly represent usage fees paid for the securities and futures trading systems, and subscription fees paid for real-time price quotation service, which accounted for approximately 10.3%, 12.5% and 11.9% of the Group’s total operating expenses (which includes staff costs, depreciation and other operating expenses) for 2008, 2009 and 2010 respectively.

Management fee represents the amount paid to a related company for routine liaison, secretarial and accounting services received, which was only incurred for the year ended 31 March 2008 for an amount of HK\$1.2 million.

Operating lease payments mainly represent the amount paid to a related party for rental associated with its head office located at the 10th floor of Wing On House in Central, which accounted for approximately 10.9%, 11.9% and 6.6% of the Group’s total operating expenses (which includes staff costs, depreciation and other operating expenses) for 2008, 2009 and 2010 respectively.

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### *Finance costs*

Finance costs consist of interest expense on bank loans for IPO financing, other bank loans and overdrafts as well as interest expense charged by related companies:

|                                             | Year ended 31 March |                  |                  |
|---------------------------------------------|---------------------|------------------|------------------|
|                                             | 2008                | 2009             | 2010             |
|                                             | HK\$                | HK\$             | HK\$             |
| Interest expense on                         |                     |                  |                  |
| — Bank loans for IPO financing . . . . .    | 52,180,923          | 77,633           | 5,543,040        |
| — Other bank loans and overdrafts . . . . . | 2,407,333           | 1,640            | 1,884,742        |
| — Loans from related companies. . . . .     | <u>5,113,918</u>    | <u>2,696,445</u> | <u>971,054</u>   |
|                                             | <u>59,702,174</u>   | <u>2,775,718</u> | <u>8,398,836</u> |

Interest expense charged by related companies represents interest on loan from Perfection Corporation and China Finance. The loan facilities offered to the Group by Perfection Corporation and China Finance were both terminated on or before 31 December 2009, and all outstanding amounts had been settled as at 31 December 2009. Interest rates charged by Perfection Corporation and China Finance ranged from 2.68% to 8% during the Track Record Period.

### *Income tax*

All of the income tax expenses of the Group during the Track Record Period represent current and deferred tax provision for the Hong Kong profits tax, as all of the assessable profits of the Group during the Track Record Period were derived in Hong Kong. The provision for Hong Kong profits tax for 2008, 2009 and 2010 are calculated at 17.5%, 16.5% and 16.5% respectively of the estimated assessable profits for each year.

### *Net profit and total comprehensive income attributable to equity shareholders*

Net profit and total comprehensive income attributable to equity holders for the year 2008, 2009 and 2010 were approximately HK\$60.1 million, HK\$21.1 million and HK\$60.3 million respectively.

Net profit margin of the Group, defined as net profit and total comprehensive income attributable to equity shareholders divided by turnover, were approximately 34.1%, 26.8% and 43.0% respectively for the year 2008, 2009 and 2010.

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### 2009 compared to 2008

#### Turnover

|                                                                | Year ended 31 March |                     | Increase/(decrease) |          |
|----------------------------------------------------------------|---------------------|---------------------|---------------------|----------|
|                                                                | 2008                | 2009                |                     |          |
|                                                                | HK\$                | HK\$                | HK\$                | %        |
| Gross brokerage commission —                                   |                     |                     |                     |          |
| securities brokerage . . . . .                                 | 153,329,580         | 105,638,208         | (47,691,372)        | (31.1%)  |
| Less: brokerage commission rebate . . . . .                    | <u>(53,015,618)</u> | <u>(43,313,540)</u> | (9,702,078)         | (18.3%)  |
| Net brokerage commission —                                     |                     |                     |                     |          |
| securities brokerage . . . . .                                 | <u>100,313,962</u>  | <u>62,324,668</u>   | (37,989,294)        | (37.9%)  |
| Gross brokerage commission —                                   |                     |                     |                     |          |
| futures and options brokerage . . . .                          | 3,836,507           | 11,413,592          | 7,577,085           | 197.5%   |
| Less: brokerage commission rebate . . . . .                    | <u>(29,258)</u>     | <u>(1,201,844)</u>  | 1,172,586           | 4,007.7% |
| Net brokerage commission —                                     |                     |                     |                     |          |
| futures and options brokerage . . . .                          | <u>3,807,249</u>    | <u>10,211,748</u>   | 6,404,499           | 168.2%   |
| Total net brokerage commission . . . .                         | <u>104,121,211</u>  | <u>72,536,416</u>   | (31,584,795)        | (30.3%)  |
| Interest income from margin financing                          | 16,226,366          | 6,040,728           | (10,185,638)        | (62.8%)  |
| Interest income IPO financing . . . . .                        | <u>56,005,447</u>   | <u>165,553</u>      | (55,839,894)        | (99.7%)  |
| Total interest income from margin and IPO financings . . . . . | <u>72,231,813</u>   | <u>6,206,281</u>    | (66,025,532)        | (91.4%)  |
|                                                                | <u>176,353,024</u>  | <u>78,742,697</u>   | (97,610,327)        | (55.3%)  |

The turnover of the Group decreased significantly by approximately 55.3% from approximately HK\$176.4 million in 2008 to approximately HK\$78.7 million in 2009, which was mainly contributed by (i) the decrease in brokerage commission income from securities brokerage, net of brokerage commission rebate to clients; (ii) decrease in interest income from margin financing; and (iii) decrease in interest income from IPO financing. During the same period, there was a decrease in turnover in Main Board and GEM, from approximately HK\$24,309.2 billion for the year ended 31 March 2008 to approximately HK\$14,413.6 billion for the year ended 31 March 2009, representing a decrease of approximately 40.7%.

As set out in the sub-section headed “Performance of the Hong Kong securities and derivatives markets” of this section, the Hong Kong securities market was in a downward trend for the year ended 31 March 2009. The total market turnover of the Main Board and the GEM decreased from HK\$24,309.2 billion for the year ended 31 March 2008 to HK\$14,413.6 billion for the year ended 31 March 2009. This led to a decrease in the trading activities of the Group, and thus a decrease in the

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brokerage income on securities dealing, net of brokerage commission rebate to clients, of approximately HK\$38.0 million and a decrease in interest income from margin financing (excluding IPO margin financing) of approximately HK\$10.2 million for the year ended 31 March 2009 as compared to the corresponding period in 2008.

Moreover, there were numerous IPOs in 2008 and the Group had offered financings to its clients for the subscription of shares in such IPOs. For the year ended 31 March 2009, the IPO activities in Hong Kong decreased remarkably. The amount of IPO financing provided by the Group for IPO subscription was therefore reduced in 2009. As a result, interest income from IPO financing decreased by approximately HK\$55.8 million for the year ended 31 March 2009 as compared with the corresponding period in 2008.

However, brokerage income derived from futures trading increased remarkably by approximately HK\$6.4 million for the year ended 31 March 2009, as compared with the year ended 31 March 2008. It was attributable to (i) the launch of the Group’s online trading platform for its futures and options trading in October 2007, which helped to attract more [clients and therefore more turnover] from them; and (ii) the full-year effect of the operation of the online futures trading platform in 2009.

### *Other revenue*

|                                        | Year ended 31 March      |                          | Increase/(decrease) |         |
|----------------------------------------|--------------------------|--------------------------|---------------------|---------|
|                                        | 2008                     | 2009                     |                     |         |
|                                        | HK\$                     | HK\$                     | HK\$                | %       |
| Interest income from                   |                          |                          |                     |         |
| — Authorised institutions . . . . .    | 6,988,646                | 4,477,199                | (2,511,447)         | (35.9%) |
| — Others . . . . .                     | <u>1,032,999</u>         | <u>811,862</u>           | (221,137)           | (21.4%) |
|                                        | 8,021,645                | 5,289,061                | (2,732,584)         | (34.1%) |
| Handling and settlement fees . . . . . | 5,435,274                | 7,998,870                | 2,563,596           | 47.2%   |
| Sundry income . . . . .                | <u>139,322</u>           | <u>310,292</u>           | 170,970             | 122.7%  |
|                                        | <u><u>13,596,241</u></u> | <u><u>13,598,223</u></u> | 1,982               | 0%      |

For each of the two years ended 31 March 2008 and 2009, other revenue of the Group was both approximately HK\$13.6 million, which was due to the net effect of (i) a decrease of interest income from authorised institutions of approximately HK\$2.5 million and (ii) an increase in handling and settlement fees of approximately HK\$2.6 million. The former was mainly attributed to lower interest rates prevailing during 2009 while the later was due to the fact that the Group had adjusted upward on settlement fees charged on clients from 0.002% (with minimum and maximum charges of HK\$2 and HK\$100 respectively) to 0.006% (with minimum and maximum charges of HK\$5 and HK\$200 respectively) of transaction amounts on 1 June 2008.

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### *Staff costs*

Staff costs increased by approximately 1.0% from approximately HK\$22.4 million in 2008 to approximately HK\$22.6 million in 2009, which was primarily attributable to the net effect of (i) an increase in salaries, allowances and benefits in kind of approximately HK\$5.1 million from approximately HK\$14.9 million in 2008 to approximately HK\$20.0 million in 2009, [resulting from a general increase in both the number of staff and the recruitment of senior management in 2009]; and (ii) a decrease in discretionary bonuses of approximately HK\$4.9 million from approximately HK\$6.8 million in 2008 to HK\$1.9 million in 2009 mainly due to less profits earned for the year 2009 as compared to the prior year.

### *Other operating expenses*

|                                                          | Year ended 31 March |                   | Increase/(decrease) |          |
|----------------------------------------------------------|---------------------|-------------------|---------------------|----------|
|                                                          | 2008                | 2009              |                     |          |
|                                                          | HK\$                | HK\$              | HK\$                | %        |
| Advertising and promotion expenses .                     | 4,767,493           | 8,981,533         | 4,214,040           | 88.4%    |
| Auditors’ remuneration. . . . .                          | 140,800             | 132,800           | (8,000)             | (5.7%)   |
| Commission expense to overseas<br>brokers . . . . .      | —                   | 24,378            | 24,378              | N/A      |
| Handling and settlement expenses . .                     | 8,941,860           | 7,622,085         | (1,319,775)         | (14.8%)  |
| Information and communication<br>expenses . . . . .      | 5,929,773           | 8,026,908         | 2,097,135           | 35.4%    |
| Legal and professional fees. . . . .                     | 208,393             | 801,432           | 593,039             | 284.6%   |
| Management fee . . . . .                                 | 1,200,000           | —                 | (1,200,000)         | (100.0%) |
| Operating lease payments<br>— property rentals . . . . . | 6,272,274           | 7,644,646         | 1,372,372           | 21.9%    |
| Rates and building management fee . .                    | 906,221             | 939,704           | 33,483              | 3.7%     |
| Miscellaneous expenses . . . . .                         | <u>4,366,618</u>    | <u>3,867,146</u>  | (499,472)           | (11.4%)  |
|                                                          | <u>32,733,432</u>   | <u>38,040,632</u> | 5,307,200           | 16.2%    |

Other operating expenses increased by approximately 16.2% from approximately HK\$32.7 million in 2008 to approximately HK\$38.0 million in 2009. The net increase in other operating expenses was primarily due to the net effect of (i) an increase in advertising and promotion expenses of approximately HK\$4.2 million, mainly attributed to an increase in advertisements placed on television during 2009 for the purpose of increasing the market share; (ii) an increase in information and communication expenses of approximately HK\$2.1 million, mainly due to an increase in usage of the securities and futures trading systems resulting from the relocation of the Group’s head office to Wing On House in Central to accommodate a bigger size of operation in June 2007 and thus bigger usage fees incurred for the whole year of 2009; (iii) an increase in operating lease payments of approximately HK\$1.4 million, as the Group started to rent its head office located at the 10th floor of Wing On House in Central in June 2007, and less than one-year rental was charged in 2008 while a full-year rental expense was charged in 2009; (iv) a decrease in handling and settlement expenses of approximately HK\$1.3 million, resulting from a

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decrease in the securities market activities and thus a decrease in the turnover of the Group, and so did the securities settlement fees charged by [●]; and (v) a decrease in management fee of HK\$1.2 million, as no service was provided by the related company starting from 2009.

### *Finance costs*

Finance costs decreased significantly by approximately 95.4% from approximately HK\$59.7 million in 2008 to approximately HK\$2.8 million in 2009 because much less bank loans were drawn for the purpose of IPO financing during the year ended 31 March 2009, coupled with the downward trend of interest rates. For the year ended 31 March 2008, there were numerous IPOs on the market. The Group had participated in more financing activities for the subscription of a number of IPOs in 2008, and therefore drew more bank loans to support these financing activities. The increase in these loans contributed to the finance cost significantly on bank loans for the year ended 31 March 2008. However, the remarkable decrease in IPO activities gave rise to less bank loans drawn for IPO financing and thus less finance cost incurred for the year ended 31 March 2009.

### *Income tax*

Income tax expense of the Group decreased from approximately HK\$12.1 million in 2008 to approximately HK\$3.9 million in 2009. For the years 2008 and 2009, the effective tax rates of the Group were approximately 16.7% and 15.5% respectively. The decrease in income tax expense and effective tax rate was a net effect of (i) a decrease in profit before taxation of approximately HK\$47.1 million for the year ended 31 March 2009 as compared with the previous year; (ii) a decrease of Hong Kong profits tax rate from 17.5% in 2008 to 16.5% in 2009; and (iii) a decrease in tax effect of non-taxable income arising from bank interest income, from approximately HK\$626,000 in 2008 to approximately HK\$169,000 in 2009.

### *Net profit and total comprehensive income attributable to equity shareholders*

As a result of the foregoing, net profit and total comprehensive income attributable to equity shareholders decreased by approximately 64.8% from approximately HK\$60.1 million for the year ended 31 March 2008 to approximately HK\$21.1 million for the year ended 31 March 2009, and the Group's net profit margin, defined as net profit and total comprehensive income attributable to equity holders divided by turnover, decreased from approximately 34.1% in 2008 to approximately 26.8% in 2009.

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### 2010 compared to 2009

#### Turnover

|                                                                | Year ended 31 March |                     | Increase/(decrease) |          |
|----------------------------------------------------------------|---------------------|---------------------|---------------------|----------|
|                                                                | 2009                | 2010                |                     |          |
|                                                                | HK\$                | HK\$                | HK\$                | %        |
| Gross brokerage commission                                     |                     |                     |                     |          |
| — securities brokerage . . . . .                               | 105,638,208         | 138,647,023         | 33,008,815          | 31.2%    |
| Less: brokerage commission rebate . . . . .                    | <u>(43,313,540)</u> | <u>(45,944,407)</u> | 2,630,867           | 6.1%     |
| Net brokerage commission                                       |                     |                     |                     |          |
| — securities brokerage . . . . .                               | <u>62,324,668</u>   | <u>92,702,616</u>   | 30,377,948          | 48.7%    |
| Gross brokerage commission                                     |                     |                     |                     |          |
| — futures and options brokerage . . . . .                      | 11,413,592          | 26,586,120          | 15,172,528          | 132.9%   |
| Less: brokerage commission rebate . . . . .                    | <u>(1,201,844)</u>  | <u>(4,649,743)</u>  | 3,447,899           | 286.9%   |
| Net brokerage commission                                       |                     |                     |                     |          |
| — futures and options brokerage . . . . .                      | <u>10,211,748</u>   | <u>21,936,377</u>   | 11,724,629          | 114.8%   |
| Total net brokerage commission . .                             | <u>72,536,416</u>   | <u>114,638,993</u>  | 42,102,577          | 58.0%    |
| Interest income from margin financing . . . . .                | 6,040,728           | 15,488,669          | 9,447,941           | 156.4%   |
| Interest income from IPO financing                             | <u>165,553</u>      | <u>10,112,399</u>   | 9,946,846           | 6,008.3% |
| Total interest income from margin and IPO financings . . . . . | <u>6,206,281</u>    | <u>25,601,068</u>   | 19,394,787          | 312.5%   |
|                                                                | <u>78,742,697</u>   | <u>140,240,061</u>  | 61,497,364          | 78.1%    |

The Group recorded turnover of approximately HK\$140.2 million for the year ended 31 March 2010 as compared to approximately HK\$78.7 million for the previous year. The significant increase in turnover of approximately 78.1% was attributable to the increase in the trading volume of the overall securities market as well as IPO activities during 2010.

For the year ended 31 March 2010, the Hong Kong securities market was generally in an upward trend, as set out in the sub-section headed “Performance of the Hong Kong securities and derivatives markets” in this section of this document above. The increase in total market turnover, including those of the Main Board and the GEM, of approximately 16.4% from approximately HK\$14,413.6 billion in

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2009 to approximately HK\$16,782.4 billion in 2010, resulted in a significant increase in the trading activities of the Group and thus an increase in net brokerage commission income on securities, futures and options dealing of approximately HK\$42.1 million and an increase in interest income from margin financing of approximately HK\$9.4 million, as compared to the previous year.

Compared with the net brokerage commission derived from securities dealing (which increased by approximately 48.7%), the net brokerage commission on futures and options trading increased at a greater extent by approximately HK\$11.7 million (or by approximately 114.8%) for the year ended 31 March 2010 as compared to the previous year, which was mainly attributable to (i) the increase in gross brokerage commission income derived from trading of the US’s futures products of approximately HK\$4.4 million resulting from the full-year effect of the provision of brokerage services covering trading of global futures on exchanges in the US and Singapore in March 2009 and September 2009 respectively; and (ii) the general improvement in the Hong Kong futures market in 2010.

In addition, IPO activities increased significantly in 2010. The number of IPOs, comprising both newly listed companies and companies transferred from the GEM to the Main Board, increased remarkably from 46 in 2009 to 79 in 2010 returning back to similar level in 2008 which was 81. Concerning the amount of IPO fund raised, it also increased sharply by approximately 713.6% from approximately HK\$34.5 billion in 2009 to approximately HK\$280.7 billion in 2010. Owing to the increase in both the number of IPOs and the amount of IPO fund raised, the amount of IPO financing provided by the Group for IPO subscription rose in 2010. As a result, interest income from IPO financing increased notably by approximately HK\$9.9 million for the year ended 31 March 2010 as compared with the corresponding period in 2009.

### *Other income*

|                                       | Years ended 31 March     |                          | Increase/(decrease) |         |
|---------------------------------------|--------------------------|--------------------------|---------------------|---------|
|                                       | 2009                     | 2010                     |                     |         |
|                                       | HK\$                     | HK\$                     | HK\$                | %       |
| Interest income from                  |                          |                          |                     |         |
| — Authorised institutions . . . . .   | 4,477,199                | 202,527                  | (4,274,672)         | (95.5%) |
| — Others . . . . .                    | <u>811,862</u>           | <u>2,814,588</u>         | 2,002,726           | 246.7%  |
|                                       | 5,289,061                | 3,017,115                | (2,271,946)         | (43.0%) |
| Handling and settlement fees. . . . . | 7,998,870                | 12,418,586               | 4,419,716           | 55.3%   |
| Sundry income . . . . .               | <u>310,292</u>           | <u>422,600</u>           | 112,308             | 36.2%   |
|                                       | <u><u>13,598,223</u></u> | <u><u>15,858,301</u></u> | 2,260,078           | 16.6%   |

For the year ended 31 March 2010, other revenue of the Group increased by approximately HK\$2.3 million as compared to the previous year, which was due to the net effect of (i) a decrease of interest income from authorised institutions of approximately HK\$4.3 million, resulting from a decrease in average bank balances (since more margin financing is provided to clients) as well as lower bank saving interest rates in 2010 as compared to the previous year; (ii) an increase of interest income from others of approximately HK\$2.0 million attributable to more late settlement by cash clients for securities

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purchase beyond T+2 resulting from more transactions conducted in 2010; and (iii) an increase in handling and settlement fees of approximately HK\$4.4 million as a result of the increase in overall securities market turnover in 2010.

### *Staff costs*

Staff costs increased by approximately HK\$13.6 million (or approximately 60.2%) from approximately HK\$22.6 million in 2009 to approximately HK\$36.2 million in 2010, which was mainly due to (i) an increase in salaries, allowances and benefits in kind of approximately HK\$6.3 million from approximately HK\$20.0 million in 2009 to approximately HK\$26.3 million in 2010, resulting from an overall increase in the number of staff in 2010; and (ii) an increase in discretionary bonuses of approximately HK\$7.2 million from approximately HK\$1.9 million in 2009 to approximately HK\$9.0 million in 2010 attributed to more profits earned in 2010 as compared to the previous year.

### *Other operating expenses*

|                                                          | Years ended 31 March |                   | Increase/(decrease) |          |
|----------------------------------------------------------|----------------------|-------------------|---------------------|----------|
|                                                          | 2009                 | 2010              |                     |          |
|                                                          | HK\$                 | HK\$              | HK\$                | %        |
| Advertising and promotion expenses .                     | 8,981,533            | 3,639,110         | (5,342,423)         | (59.5%)  |
| Auditors' remuneration. . . . .                          | 132,800              | 500,000           | 367,200             | 276.5%   |
| Commission expense to overseas<br>brokers . . . . .      | 24,378               | 1,222,037         | 1,197,659           | 4,912.9% |
| Handling and settlement expenses . . .                   | 7,622,085            | 10,157,947        | 2,535,862           | 33.3%    |
| Information and communication<br>expenses . . . . .      | 8,026,908            | 9,009,477         | 982,569             | 12.2%    |
| Legal and professional fees. . . . .                     | 801,432              | 300,486           | (500,946)           | (62.5%)  |
| Operating lease payments<br>— property rentals . . . . . | 7,644,646            | 5,001,547         | (2,643,099)         | (34.6%)  |
| Rates and building<br>management fee . . . . .           | 939,704              | 1,005,676         | 65,972              | 7.0%     |
| Miscellaneous expenses . . . . .                         | <u>3,867,146</u>     | <u>4,907,387</u>  | 1,040,241           | 26.9%    |
|                                                          | <u>38,040,632</u>    | <u>35,743,667</u> | (2,296,965)         | (6.0%)   |

Other operating expenses decreased by approximately 6.0% from approximately HK\$38.0 million in 2009 to approximately HK\$35.7 million in 2010, which was primarily due to the net effect of (i) the decrease in advertising and promotion expenses of approximately HK\$5.3 million, attributable to greater amount of television advertisement incurred in the previous year for increasing the market share; (ii) an increase in commission expense paid to overseas brokers of approximately HK\$1.2 million resulting from the full year effect of the provision of brokerage services covering global futures in 2010 as the Group extended its brokerage services to futures products traded on exchanges in the US and Singapore Exchange, in March 2009 and September 2009 respectively; (iii) an increase of handling and settlement expenses of approximately HK\$2.5 million as a result of the increase in the overall securities market turnover and so did the turnover of the Group; and (iv) a decrease in the operating lease payments of

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approximately HK\$2.6 million since the monthly rental of the Group’s head office located at Wing On House in Central was revised from HK\$670,000 to HK\$335,000 in November 2008 and thus a higher rent was charged for seven months in the previous year.

### *Finance costs*

Finance costs increased remarkably by approximately 202.6% from approximately HK\$2.8 million in 2009 to approximately HK\$8.4 million in 2010, which was primarily attributable to the increase in interest expense on bank loans for IPO financing of approximately HK\$5.5 million. Due to the general increase in IPO activities in terms of the number of IPO as well as the amount of IPO fund raised, more bank loans were drawn for the purpose of IPO financing and thus more finance costs were incurred during the year ended 31 March 2010.

### *Income tax*

Income tax expense of the Group increased from approximately HK\$3.9 million in 2009 to approximately HK\$11.9 million in 2010. The increase in income tax expense was mainly attributed to the increase in profit before taxation of approximately HK\$47.2 million for the year ended 31 March 2010 as compared with the previous year. For the years 2009 and 2010, the effective tax rates of the Group were approximately 15.5% and 16.5% respectively.

### *Net profit and total comprehensive income attributable to equity shareholders*

As a result of the foregoing, net profit and total comprehensive income attributable to equity shareholders increased by approximately 185.2% from approximately HK\$21.1 million for the year ended 31 March 2009 to approximately HK\$60.3 million for the year ended 31 March 2010, and the Group’s net profit margin, defined as net profit and total comprehensive income attributable to equity shareholders divided by turnover, increased from approximately 26.8% in 2009 to approximately 43.0% in 2010.

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### FINANCIAL POSITION

The table below is the selected financial data of the Group as extracted from the Accountants’ Report included in Appendix I to this document:

#### Combined balance sheets

|                                                        | As at 31 March     |                    |                    |
|--------------------------------------------------------|--------------------|--------------------|--------------------|
|                                                        | 2008               | 2009               | 2010               |
|                                                        | HK\$               | HK\$               | HK\$               |
| <b>Non-current assets</b>                              |                    |                    |                    |
| Fixed assets . . . . .                                 | 9,206,313          | 7,165,834          | 7,191,201          |
| Deferred tax assets . . . . .                          | —                  | —                  | 464,985            |
| Other non-current assets . . . . .                     | <u>2,400,000</u>   | <u>2,320,000</u>   | <u>4,582,607</u>   |
| <b>Total non-current assets . . . . .</b>              | <u>11,606,313</u>  | <u>9,485,834</u>   | <u>12,238,793</u>  |
| <b>Current assets</b>                                  |                    |                    |                    |
| Accounts receivable . . . . .                          | 247,943,542        | 222,332,823        | 763,133,465        |
| Other receivables, deposits and prepayments . . . . .  | 5,066,425          | 3,276,168          | 9,420,641          |
| Cash and cash equivalents . . . . .                    | <u>164,324,949</u> | <u>163,041,822</u> | <u>157,531,612</u> |
| <b>Total current assets . . . . .</b>                  | <u>417,334,916</u> | <u>388,650,813</u> | <u>930,085,718</u> |
| <b>Current liabilities</b>                             |                    |                    |                    |
| Accounts payable . . . . .                             | 139,779,811        | 153,366,495        | 189,095,829        |
| Accrued expenses and other payables . . . . .          | 13,031,346         | 6,669,184          | 151,256,284        |
| Amount due to a related company . . . . .              | 80,000,000         | 29,100,000         | —                  |
| Bank loans . . . . .                                   | —                  | —                  | 441,000,000        |
| Current taxation . . . . .                             | <u>9,340,847</u>   | <u>895,908</u>     | <u>8,920,966</u>   |
| <b>Total current liabilities . . . . .</b>             | <u>242,152,004</u> | <u>190,031,587</u> | <u>790,273,079</u> |
| <b>Net current assets . . . . .</b>                    | <u>175,182,912</u> | <u>198,619,226</u> | <u>139,812,639</u> |
| <b>Total assets less current liabilities . . . . .</b> | 186,789,225        | 208,105,060        | 152,051,432        |
| <b>Non-current liabilities</b>                         |                    |                    |                    |
| Deferred tax liabilities . . . . .                     | <u>107,175</u>     | <u>287,656</u>     | <u>—</u>           |
| <b>Net assets . . . . .</b>                            | <u>186,682,050</u> | <u>207,817,404</u> | <u>152,051,432</u> |
| <b>Equity</b>                                          |                    |                    |                    |
| Share capital . . . . .                                | 110,000,000        | 110,000,000        | 130,000,009        |
| Retained profits . . . . .                             | <u>76,682,050</u>  | <u>97,817,404</u>  | <u>22,051,423</u>  |
| <b>Total equity . . . . .</b>                          | <u>186,682,050</u> | <u>207,817,404</u> | <u>152,051,432</u> |

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### DESCRIPTION OF SELECTED BALANCE SHEET ITEMS

#### Fixed assets

Fixed assets of the Group consist of leasehold improvements, computers and software, office equipment, furniture and fixtures and motor vehicles, which are stated in the combined balance sheets at cost less accumulated depreciation and any impairment losses. As at 31 March 2008, 2009 and 2010, the Group had fixed assets with aggregate net book values of approximately HK\$9.2 million, HK\$7.2 million and HK\$7.2 million respectively.

Leasehold improvements represent primarily decoration expenditures incurred when the headquarter of the Group was moved from World-wide House in Central to Wing On House in Central during the year ended 31 March 2008. Computer and software represent mainly the Group’s online securities and futures trading systems, the back-office computer system and other computer softwares and hardwares.

The decrease in carrying values of fixed assets in 2009 was primarily due to the depreciation charged to profit or loss during the periods. The net book values of fixed assets as at 31 March 2010 remained more or less the same as the previous year as the additions were almost offset by the depreciation charge in 2010.

#### Accounts receivable

Accounts receivable includes receivables from cash clients, margin clients, clearing houses and brokers and dealers. The following table presents the composition of accounts receivable for the years indicated:

|                                 | As at 31 March     |                    |                    |
|---------------------------------|--------------------|--------------------|--------------------|
|                                 | 2008               | 2009               | 2010               |
|                                 | HK\$               | HK\$               | HK\$               |
| Accounts receivable from        |                    |                    |                    |
| — Cash clients . . . . .        | 10,319,468         | 30,182,031         | 55,447,328         |
| — Margin clients . . . . .      | 152,477,901        | 132,709,428        | 608,568,325        |
| — Clearing houses . . . . .     | 85,146,173         | 57,273,098         | 91,775,026         |
| — Brokers and dealers . . . . . | —                  | 2,168,266          | 7,342,786          |
|                                 | <u>247,943,542</u> | <u>222,332,823</u> | <u>763,133,465</u> |

Accounts receivable from cash clients relates to purchase transactions by clients that are executed but not yet settled in cash pursuant to the T+2 settlement basis. For cash client balances not settled 2 days after execution of transactions, the Group charges overdue interests at interest rates higher than the normal margin financing interest rates. The increase in accounts receivables from cash clients in 2009 was mainly attributed to the increase in purchase transactions executed by cash clients in the last two trading days in March 2009 as compared with the same period in March 2008. Due to the recovery of the securities market in 2010 and thus more purchase transactions executed in 2010, the accounts receivable from cash clients as at 31 March 2010 increased significantly as compared with the previous year end.

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Accounts receivable from margin clients relate to securities purchases on credit by clients having margin accounts with the Group. The margin loans, repayable to the Group on demand, are normally pledged with securities as collateral to the Group. There is no specific repayment term for margin loans. The amount of credit facilities granted to margin clients is determined by the discounted value of securities accepted by the Group. As at 31 March 2008, 2009 and 2010, the total market values of securities pledged as collateral in respect of the margin loans were approximately HK\$649.6 million, HK\$435.3 million and HK\$1,934.2 million respectively, which represented approximately 4.3 times, 3.3 times and 3.2 times of the margin loan balances respectively. The decrease in accounts receivable from margin clients in 2009 was mainly attributable to the outbreak of the financial tsunami during the year ended 31 March 2009 which in turn led to less margin financing provided by the Group to its clients. However, as the securities market in Hong Kong recovered from downturn caused by the global financial crisis and a low interest rate environment was prevailing in 2010, more margin financing was provided by the Group, thus resulting in a remarkable increase in accounts receivable from margin clients as at 31 March 2010.

Accounts receivable from clearing houses represents amount receivable from [●] for sell transactions executed by clients but not yet settled in [●] pursuant to the T+2 settlement basis. The decrease in accounts receivable from clearing houses in 2009 was mainly attributed to the decrease in sell transactions executed by clients in the last two trading days in March 2009 as compared with the same period in March 2008, and so did the accounts receivable from clearing houses as at 31 March 2009. However, the Hong Kong securities market in 2010 was on an upward trend and the HSI was at a higher level as at 31 March 2010 as compared with the previous year end. Due to the increase in the securities market turnover in 2010 and the high level of the HSI at the end of 2010, more sale transactions were executed by clients in the last two days in March 2010 as compared with the same period in March 2009, therefore giving rise to a significant increase in accounts receivable from clearing houses as at 31 March 2010. The change in accounts receivable from clearing houses was consistent with that in accounts payable to cash and margin clients, as described below.

Accounts receivable from brokers and dealers represent deposits placed with the two independent local brokers which provide brokerage services for futures products traded on exchanges in the US and Singapore. As trading of futures products on exchanges in the US and Singapore was just launched in March 2009 and September 2009 respectively, only a balance of approximately HK\$2.2 million was noted as at 31 March 2009. The balance as at 31 March 2010 increased significantly mainly attributable to an increase in transaction volume as well as a significant increase in turnover derived from trading of futures in 2010.

Accounts receivable from clearing houses, brokers and dealers arise from the ordinary business of the Group and are therefore treated as “accounts receivable”.

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### Other receivables, deposits and prepayments

The following table presents the breakdown of other receivables, deposits and prepayments for the years indicated:

|                                       | As at 31 March   |                  |                  |
|---------------------------------------|------------------|------------------|------------------|
|                                       | 2008             | 2009             | 2010             |
|                                       | HK\$             | HK\$             | HK\$             |
| Rental and utility deposits . . . . . | 2,477,876        | 1,481,651        | 2,973,574        |
| Prepayments . . . . .                 | 1,738,178        | 1,474,037        | 6,127,716        |
| Other receivables. . . . .            | 850,371          | 320,480          | 319,351          |
|                                       | <u>5,066,425</u> | <u>3,276,168</u> | <u>9,420,641</u> |

Rental and utility deposits as at 31 March 2010 represented mainly rental, management fee and rate deposits paid for the Group’s headquarter at Wing On House in Central (to a related company owned by Mr. Yip), the backup office in Wan Chai (to a related company owned by Mr. Yip) and the two branches at Hang Seng Tsuen Wan Building in Tsuen Wan (to independent third party) and Peter Building in Central (to a related company owned by Mr. Yip). The decrease in rental and utility deposits in 2009 was primarily attributable to the reduction of monthly rental of the Group’s head office in Wing On House in Central and thus the rental deposits required. The increase in the balance in 2010 was, however, mainly resulted from the rental deposits of approximately HK\$1.4 million paid for the new branches located at Tsuen Wan, Yuen Long, Central, Causeway Bay, Mong Kok and Tai Wai.

Prepayments as at 31 March 2010 comprised mainly prepaid professional fees of approximately HK\$4.0 million in relation to the [●], prepayment for the Group’s advertising expenses to various media companies in Hong Kong for advertisements not yet broadcasted or published, and an amount paid to Wong Wing Man (“Mr. Wong”), the present head of Information Technology Department of the Group, as an inducement upon joining the Group. These prepayments recorded in the Group’s combined balance sheets will be reversed and recognised in profit or loss when the advertising services have been provided to the Group or when Mr. Wong has provided the services as stated in his employment contract. The decrease in prepayments as at 31 March 2009 as compared with the previous year end was a net effect of (i) a decrease in advertising prepayment of approximately HK\$0.7 million, as more advertising services have been rendered to the Group for the year ended 31 March 2009 and (ii) a bonus of approximately HK\$1.0 million which was prepaid to Mr. Wong (who was hired in March 2009) as at 31 March 2009 (2008: Nil). As at 31 March 2010, the balance increased significantly as compared to the previous year end, mainly attributable to the prepaid professional fees in relation to the [●] of approximately HK\$4.0 million and the increase in rental prepayment of approximately HK\$0.5 million.

Other receivables as at 31 March 2008 mainly represented equipment deposits, decoration deposits and the amount due from a director, which was fully settled as at 31 March 2010. The decrease of the balance as at 31 March 2009 as compared with the previous year end was mainly attributable to a decrease in decoration deposits due to the completion of part of decoration work in the back-up office in Wan Chai during 2009. The balance as at 31 March 2010 remained more or less the same as the previous year end and mainly represented deposits paid for Internet trading services.

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### Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, and demand deposits with banks. As part of its normal course of business, the Group maintains segregated accounts with banks to hold clients’ money, which are not included in the combined balance sheets of the Group. As at 31 March 2008, 2009 and 2010, these clients’ money maintained in segregated accounts amounted to approximately HK\$411.1 million, HK\$364.1 million and HK\$624.6 million respectively.

### Accounts payable

Accounts payable includes payables to cash clients, margin clients and clearing houses. The table below presents, for the years indicated, the breakdown of the Group’s accounts payable:

|                             | As at 31 March     |                    |                    |
|-----------------------------|--------------------|--------------------|--------------------|
|                             | 2008               | 2009               | 2010               |
|                             | HK\$               | HK\$               | HK\$               |
| Accounts payable            |                    |                    |                    |
| — Cash clients . . . . .    | 55,515,584         | 32,855,685         | 68,825,766         |
| — Margin clients . . . . .  | 64,962,594         | 71,492,575         | 112,830,849        |
| — Clearing houses . . . . . | 19,301,633         | 49,018,235         | 7,439,214          |
|                             | <u>139,779,811</u> | <u>153,366,495</u> | <u>189,095,829</u> |

Accounts payable to cash clients and margin clients represents the amount due in relation to sale transactions made by clients that were executed but not yet settled in cash pursuant to the T+2 settlement basis. The decrease in accounts payable to cash clients in 2009 was primarily due to the decrease in sell transactions executed by cash clients in the last two trading days in March 2009 as compared with the same period in March 2008. Nevertheless, the balance as at 31 March 2010 increased notably as compared with the previous year end, due to the increase in the securities market turnover in 2010 and the high level of the HSI near the end of 2010, thus resulting in more sale transactions executed by cash clients in the last two days in March 2010 as compared with the same period in March 2009. The change in accounts payable to cash clients was consistent with the change in accounts receivable from clearing houses, as described above.

The accounts payable to margin clients increased moderately in 2009 because of the declining securities market in 2009. The outbreak of the financial tsunami during the year ended 31 March 2009 resulted in more liquidation of clients’ securities held in margin accounts as those clients were not able to top up their margin deposits to meet the margin calls from the securities house. As a result, the accounts payable to margin clients increased in 2009. However, the remarkable increase in balance as at 31 March 2010 was, on the other hand, attributed to more sale transactions executed by margin clients in the last two trading days in March 2010.

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Accounts payable to clearing houses represents amount payable to [●] for purchase transactions executed by clients but not yet settled pursuant to the T+2 settlement basis. The increase in accounts payable to clearing houses in 2009 was attributable to the increase in purchase transactions executed by cash clients in the last two trading days in March 2009 as compared with the same period in March 2008.

### Accrued expenses and other payables

The following table presents the breakdown of accrued expenses and other payables for the years indicated:

|                                                             | As at 31 March    |                  |                    |
|-------------------------------------------------------------|-------------------|------------------|--------------------|
|                                                             | 2008              | 2009             | 2010               |
|                                                             | HK\$              | HK\$             | HK\$               |
| Commission rebate payables . . . . .                        | 5,743,781         | 2,767,510        | 4,822,379          |
| Accrued bonuses . . . . .                                   | 3,119,835         | 715,375          | 4,289,438          |
| Stamp duty, trading levy and trading fee payables . . . . . | 2,666,355         | 1,687,291        | 2,285,525          |
| Dividend payable . . . . .                                  | —                 | —                | 136,050,000        |
| Other payables . . . . .                                    | 1,501,375         | 1,499,008        | 3,808,942          |
|                                                             | <u>13,031,346</u> | <u>6,669,184</u> | <u>151,256,284</u> |

Accrued expenses and other payables decreased as at 31 March 2009 as compared with the previous year, which was mainly attributed to a decrease in commission rebate payables, accrued bonuses and stamp duty, trading levy and trading fee payables. Commission rebate payables represent brokerage commission payable to clients when their trading volumes reach certain monetary levels, the decrease of balance of which in 2009 was mainly due to the decrease in the Group’s turnover for the year ended 31 March 2009. As for accrued bonuses, as the bonus paid by the Group was set with reference to the Group’s performance and that the financial performance of the Group in 2009 was worse than that in 2008, the accrued bonuses as at 31 March 2009 thus decreased as compared with the previous year end. Regarding stamp duty, trading levy and trading fee payables, they are charged by HKEx and are directly linked to the total trading value of the Group, the balance of which decreased as well in 2009 due to declining securities market activities at the end of 2009 as compared with the same period in 2008.

Nevertheless, the accrued expenses and other payables as at 31 March 2010 increased significantly by approximately HK\$144.6 million as compared with the previous year end, largely because of (i) the dividends of approximately HK\$136.1 million declared during 2010 which will be settled before [●]; (ii) the significant increase in the commission rebate payables and the stamp duty, trading levy and trading fee payables resulting from the general increase in the Group’s trading volume in 2010 (due to the recovery of the overall securities market); and (iii) the remarkable increase in accrued bonuses as the Group recorded a high growth of net profit and total comprehensive income attributable to equity shareholders during 2010.

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### LIQUIDITY AND CAPITAL RESOURCES

#### Cash flow data

The following table presents selected cash flow data from the combined cash flow statements of the Group for the three years ended 31 March 2008, 2009 and 2010:

|                                                   | Year ended 31 March       |                           |                           |
|---------------------------------------------------|---------------------------|---------------------------|---------------------------|
|                                                   | 2008                      | 2009                      | 2010                      |
|                                                   | HK\$                      | HK\$                      | HK\$                      |
| <b>Net cash generated from/(used in)</b>          |                           |                           |                           |
| <b>operating activities</b> . . . . .             | 2,563,434,106             | 48,569,478                | (428,838,183)             |
| <b>Net cash (used in)/generated from</b>          |                           |                           |                           |
| <b>investing activities</b> . . . . .             | (2,292,862)               | 3,823,113                 | (173,200)                 |
| <b>Net cash (used in)/generated from</b>          |                           |                           |                           |
| <b>financing activities</b> . . . . .             | <u>(2,493,702,174)</u>    | <u>(53,675,718)</u>       | <u>423,501,173</u>        |
| <b>Net increase/(decrease) in cash and</b>        |                           |                           |                           |
| <b>cash equivalents</b> . . . . .                 | 67,439,070                | (1,283,127)               | (5,510,210)               |
| <b>Cash and cash equivalents at 1 April</b> . . . | <u>96,885,879</u>         | <u>164,324,949</u>        | <u>163,041,822</u>        |
| <b>Cash and cash equivalents at 31 March</b> . .  | <u><u>164,324,949</u></u> | <u><u>163,041,822</u></u> | <u><u>157,531,612</u></u> |

#### *Operating activities*

Net cash generated from operating activities in 2008 was approximately HK\$2,563.4 million, which was primarily attributable to (i) the net decrease in accounts receivable of approximately HK\$2,324.6 million resulting from margin loans being repaid by clients in relation to an IPO, which were provided in March 2007 and subsequently settled in April 2007; and (ii) increase in accounts payable of approximately HK\$103.9 million.

Net cash generated from operating activities in 2009 was approximately HK\$48.6 million, which was primarily resulted from (i) profit before taxation of approximately HK\$25.0 million earned by the Group during the year; (ii) net decrease in accounts receivable of approximately HK\$25.6 million; and (iii) increase in accounts payable of approximately HK\$13.6 million.

Net cash used in operating activities in 2010 was approximately HK\$428.8 million, which was principally attributable to the net effect of (i) the net increase in accounts receivable of approximately HK\$540.8 million resulting from margin loans being borrowed by clients; and (ii) increase in accounts payable of approximately HK\$35.7 million.

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The net cash generated from operating activities decreased from approximately HK\$2,563.4 million in 2008 to approximately HK\$48.6 million in 2009 was principally resulted from the net decrease in accounts receivable of approximately HK\$2,324.6 million resulting from margin loans being repaid by clients in relation to an IPO during March 2007 and April 2007 as mentioned above.

The change from net cash generated from operating activities in 2009 of approximately HK\$48.6 million to net cash used in operating activities in 2010 of approximately HK\$428.8 million was mainly due to the net increase in accounts receivable of approximately HK\$540.8 million resulting from margin loans being borrowed by clients as mentioned above.

### *Investing activities*

Net cash used in investing activities in 2008 was approximately HK\$2.3 million, which was mainly attributable to the payment for purchase of fixed assets of approximately HK\$10.3 million in relation to the decoration expenditures incurred when the headquarter of the Group was moved from World-wide House in Central to Wing On House in Central during the year, and partially offset by interest received from authorised institutions and the Group’s cash clients during the year of approximately HK\$8.0 million.

Net cash generated from investing activities in 2009 was approximately HK\$3.8 million, which was primarily attributable to the interest received from authorised institutions and the Group’s cash clients during the year of approximately HK\$5.3 million, and partially offset by the purchase of fixed assets mainly comprising computer hardwares and softwares.

Net cash used in investing activities in 2010 was approximately HK\$173,000, which was principally resulted from the purchase of fixed asset of approximately HK\$3.6 million mainly comprising leasehold improvements, furniture and fixtures, and computer and software, and partially offset by the interest received from authorised institutions and the Group’s cash clients during the year of approximately HK\$3.0 million.

The change from net cash used in investing activities in 2008 of approximately HK\$2.3 million to net cash generated from investing activities in 2009 of approximately HK\$3.8 million was mainly due to the decoration expenditures incurred during 2008 for the Group’s new headquarter in Wing On House in Central as mentioned above.

The change from net cash generated from investing activities in 2009 of approximately HK\$3.8 million to net cash used in investing activities in 2010 of approximately HK\$173,000 was primarily due to the purchase of fixed assets during 2010 as mentioned above.

### *Financing activities*

Net cash used in financing activities in 2008 was approximately HK\$2,493.7 million, which was primarily attributable to (i) the repayment of bank loans of approximately HK\$2,419.0 million in relation to an IPO in April 2007 which were provided in March 2007, as mentioned above; and (ii) the repayment of sub-ordinated loan due to a related company of approximately HK\$100.0 million.

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Net cash used in financing activities in 2009 was approximately HK\$53.7 million, which was resulted from (i) the repayment of amount due to Perfection Corporation of HK\$50.9 million; and (ii) the approximately HK\$2.8 million interest paid for loans and overdrafts from banks and Perfection Corporation during the year.

Net cash generated from financing activities in 2010 was approximately HK\$423.5 million, which was principally the net result of (i) the proceeds from bank loans of HK\$441.0 million for the purpose of margin loans; (ii) the proceeds from share issue of approximately HK\$20.0 million; (iii) the repayment of amount due to Perfection Corporation of HK\$29.1 million; and (iv) the interest of approximately HK\$8.4 million paid for loans and overdrafts from banks and Perfection Corporation during the year.

The decrease in net cash used in financing activities of approximately HK\$2,493.7 million in 2008 to approximately HK\$53.7 million in 2009 was principally due to the repayment of bank loans of approximately HK\$2,419.0 million in 2008 in relation to an IPO during March 2007 and April 2007 as mentioned above.

The change from net cash used in financing activities in 2009 of approximately HK\$53.7 million to net cash generated from financing activities in 2010 of approximately HK\$423.5 million was primarily due to the proceeds from bank loans and the share issue in 2010 as mentioned above.

### Net current assets

The following table sets out the Group’s current assets, current liabilities and net current assets as at 30 June 2010:

|                                                       | As at<br>30 June 2010       |
|-------------------------------------------------------|-----------------------------|
| 2010                                                  | HK\$                        |
| <b>Current assets</b>                                 |                             |
| Accounts receivable . . . . .                         | 1,135,579,678               |
| Other receivables, deposits and prepayments . . . . . | 168,704,905                 |
| Cash and cash equivalents . . . . .                   | <u>322,822,266</u>          |
| <b>Total current assets . . . . .</b>                 | <b><u>1,627,106,849</u></b> |
| <b>Current liabilities</b>                            |                             |
| Accounts payable . . . . .                            | 176,521,752                 |
| Accrued expenses and other payables . . . . .         | 305,626,774                 |
| Amount due to a related company . . . . .             | 198,000,000                 |
| Bank loans . . . . .                                  | 797,100,000                 |
| Current taxation . . . . .                            | <u>9,913,116</u>            |
| <b>Total current liabilities . . . . .</b>            | <b><u>1,487,161,642</u></b> |
| <b>Net current assets . . . . .</b>                   | <b><u>139,945,207</u></b>   |

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### Operating lease commitments

The following table sets forth the total future minimum lease payments payable under non-cancellable operating lease on properties:

|                                                | As at 31 March    |                  |                   |
|------------------------------------------------|-------------------|------------------|-------------------|
|                                                | 2008              | 2009             | 2010              |
|                                                | HK\$              | HK\$             | HK\$              |
| Within one year . . . . .                      | 8,616,588         | 4,596,588        | 8,313,198         |
| After one year but within five years . . . . . | <u>10,508,482</u> | <u>1,221,894</u> | <u>13,869,757</u> |
|                                                | <u>19,125,070</u> | <u>5,818,482</u> | <u>22,182,955</u> |

The operating lease commitments as at 31 March 2008 and 2009 mainly represented commitments for the rental of the Group’s headquarter in Central and the Group’s backup office in Wan Chai, both of which are leased from related companies owned by Mr. Yip. The decrease in operating lease commitments in 2009 was mainly due to the reduction of monthly rental of the Group’s headquarter in Central when the lease agreement was renewed during the year.

The operating lease commitments as at 31 March 2010 represented commitments for the rental of the Group’s headquarter in Central, the Group’s backup office in Wan Chai and [six] new branches with respective rental agreements between November 2009 and March 2010. The significant increase in operating lease commitments in 2010 was mainly attributed to the commitment of the [six] new branches as mentioned above.

### Capital resources and cash management

The Group’s cash flow movement during the Track Record Period was mainly affected by the Group’s operating performance, purchase of fixed assets, interest income received from financial institutions, financings from banks and a related company, and repayments of bank loans and amount due to a related company.

The Group’s primary objective when managing capital is to safeguard the Group’s ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost. In addition, certain subsidiaries of the Group licensed by the SFC are obliged to meet the regulatory liquid capital requirements under the FRR at all times.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and make adjustments to the capital structure in light of changes in economic conditions. For the licensed subsidiaries, the Group ensures each of them maintains a liquid capital level adequate to support the activities level with sufficient buffer to accommodate the increase in liquidity requirements arising from potential increases in business activities. FRR returns are filed to the SFC by the licensed subsidiaries on monthly basis as required. During the Track Record Period, all the licensed subsidiaries complied with the liquid capital requirements under the FRR.

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Individual operating entities within the Group are responsible for their own cash management, including the raising of loans to cover expected cash demands, and to ensure compliance with the FRR. The Group’s policy is to regularly monitor its liquidity requirement and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

### Working capital

The Group’s aggregate cash and cash equivalents, as at 31 March 2008, 2009 and 2010, amounted to approximately HK\$164.3 million, HK\$163.0 million and HK\$157.5 million respectively. The Directors are of the opinion that, taking into account its internal resources, available banking facilities and the estimated net proceeds of the [●], the Group will have sufficient working capital for its present requirements and for the next 12 months from the date of this document.

### INDEBTEDNESS

|                                     | As at 31 March    |                   |                    | As at              |
|-------------------------------------|-------------------|-------------------|--------------------|--------------------|
|                                     | 2008              | 2009              | 2010               | 30 June 2010       |
|                                     | HK\$              | HK\$              | HK\$               | HK\$               |
| Bank loans . . . . .                | —                 | —                 | 441,000,000        | 797,100,000        |
| Amount due to a related company . . | 80,000,000        | 29,100,000        | —                  | 198,000,000        |
|                                     | <u>80,000,000</u> | <u>29,100,000</u> | <u>441,000,000</u> | <u>995,100,000</u> |

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### Bank loans

Apart from the loan facilities from Perfection Corporation and China Finance, the Group also obtained various banking facilities from financial institutions to support its margin and IPO financing businesses. The Group normally draws down bank loans, with terms of a couple of days, and rollover them when needed. The bank loans as at 31 March 2010 were interest-bearing at 1.05% per annum and were based on HIBOR plus a fixed interest rate of 1%, representing the market rate which the Group was able to obtain from independent financial institutions. The Directors believe that the decrease in market interest rates, thereby the interest rates applicable to the Group’s borrowings, is the main reason for the low financing cost in 2010 despite the increase in bank borrowings. The actual interest rate applicable to the Group’s bank loans in future depends on the future change in interest rates. Securities collateral deposited by the Group’s margin clients was re-pledged to banks to secure these loan facilities. The fair value of the collateral re-pledged to banks as at 31 March 2010 amounted to HK\$757,588,500. As at 31 March 2010, the unutilised banking facilities amounted to HK\$575,000,000. The loan balance, maturity date, interest rate and the market value of securities pledged (which represented clients’ assets) to secure the loans are summarised as follows:

| <u>Date</u>              | <u>Loan balance</u> | <u>Maturity date</u>       | <u>Interest rate</u> | <u>Market value<br/>of securities pledged<br/>to secure the loans</u> |
|--------------------------|---------------------|----------------------------|----------------------|-----------------------------------------------------------------------|
| As at 31 March 2008 . .  | Nil                 | N/A                        | N/A                  | N/A                                                                   |
| As at 31 March 2009 . .  | Nil                 | N/A                        | N/A                  | N/A                                                                   |
| As at 31 March 2010 . .  | HK\$441,000,000     | 1 April to<br>7 April 2010 | 1.05%                | HK\$757,588,500                                                       |
| As at 30 June 2010 . . . | HK\$797,100,000     | 2 July to<br>7 July 2010   | 0.65% to 1.15%       | HK\$1,180,356,000                                                     |

The Directors advised that the Group has not experienced any difficulty in rolling-over the bank loans during the Track Record Period and up to the Latest Practicable Date.] According to the Section 7 of the Securities and Futures (Client Securities) Rules — Treatment of client securities and securities collateral by intermediaries licensed or registered for dealing in securities and their associated entities, an intermediary licensed or registered for dealing in securities with a standing authority may deposit any of the securities collateral in question with an authorised financial institution as collateral for financial accommodation provided to the intermediary. Accordingly, the Directors are of the view that such arrangement complies with the relevant laws and regulations.

The risks of providing an authority to repledge the clients’ securities as collateral have been disclosed in the terms and conditions for trading account. If clients provide the Group with an authority that allows it to apply their securities or securities collateral pursuant to a securities borrowing and lending agreement, repledge their securities collateral for financial accommodation or deposit their securities collateral as collateral for the discharge and satisfaction of its settlement obligations and liabilities with third parties, those third parties will have a lien or charge on their securities or securities collateral. [Pursuant to the standing authority annexed to the terms and conditions for trading account, the clients authorize and/or instruct the Group to deal, from time to time, with the securities and/or securities collateral received or held on his/her behalf to (among others) deposit any of the securities collateral with an authorised financial institution as collateral for financial accommodation provided to

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the Group; or to deposit any of the securities collateral with any clearing house recognized by the SFC or another intermediary licensed or registered for dealing in securities as collateral for the discharge and satisfaction of the client’s settlement obligations and liabilities towards the Group.] Although the Group is responsible to the clients for securities or securities collateral lent or deposited under their authorities, a default by it could result in the loss of the client’s securities or securities collateral. The SFO, which became effective on 1 April 2003, provides for the establishment of a compensation scheme, the Investor Compensation Fund, which allows an investor who suffers pecuniary losses as a result of default of a licensed intermediary or authorised financial institution in relation to exchange traded products in Hong Kong, to recover a maximum compensation of HK\$150,000. Default of a licensed intermediary or authorised financial institution means an intermediary, its employee or its associated person is in bankruptcy, winding up, or insolvency, or breach of trust, defalcation, fraud, or misfeasance. All licensed brokerage firms and banks that provide securities and futures contracts trading are covered.

### Amount due to related companies

During the Track Record Period, the Group obtained loan facilities from Perfection Corporation and China Finance, mainly for the purpose of being working capital to the Group’s operation. These loan facilities amounted to HK\$200.0 million and HK\$200.0 million as at 31 March 2008 and 2009 respectively, with interest rates of 4.5% and 3.6% respectively. The loan facilities offered to the Group by Perfection Corporation and China Finance were both terminated on or before 31 December 2009, and all outstanding amounts had been settled as at 31 December 2009.

### Gearing ratio

Gearing ratio, defined as total debts divided by total assets, is a measure of financial leverage, demonstrating the degree to which a firm’s activities are funded by shareholders’ funds versus creditors’ funds. Total debts are calculated by the sum of bank loans and amount due to a related company, as shown in the combined balance sheet.

The following table sets out the gearing ratios as of the dates indicated:

|                                           | As at 31 March |             |             |
|-------------------------------------------|----------------|-------------|-------------|
|                                           | 2008           | 2009        | 2010        |
|                                           | HK\$           | HK\$        | HK\$        |
| Bank loans . . . . .                      | —              | —           | 441,000,000 |
| Amount due to a related company . . . . . | 80,000,000     | 29,100,000  | —           |
| Total debts . . . . .                     | 80,000,000     | 29,100,000  | 441,000,000 |
| Total assets . . . . .                    | 428,941,229    | 398,136,647 | 942,324,511 |
| Gearing ratio . . . . .                   | 18.7%          | 7.3%        | 46.8%       |

The gearing ratio decreased from 18.7% in 2008 to 7.3% in 2009, which was primarily attributable to the repayment of amount due to a related company of HK\$50.9 million during 2009. In 2010, the gearing ratio rose to 46.8% due to the bank loans of HK\$441.0 million which was outstanding as at the year end date.

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### Current ratio

Current ratio, calculated by dividing current assets by current liabilities, is a measure of a firm’s ability to meet its short-term obligations. As at 31 March 2008, 2009 and 2010, the current ratio of the Group was 1.72, 2.05 and 1.18 respectively. The improvement in the current ratio from 31 March 2008 to 31 March 2009 was primarily attributable to significant decrease in current liabilities, including accrued expenses and other payables, amount due to a related company and tax payable. However, the current ratio of the Group as at 31 March 2010 decreased as compared to the previous year, mainly attributable to the bank loans and the dividends declared during the year.

### Disclaimers

Save as disclosed in “Financial Information- Indebtedness” above, and apart from intra-group liabilities, the Group did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding at 30 June 2010.

As of 30 June 2010, the Group had no material contingent liabilities. The Group is not involved in any current material legal proceedings, nor is the Group aware of any pending or potential material legal proceedings involving us. If the Group was involved in such material legal proceedings, the Group would record any loss contingencies when, based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated.

The Directors confirm that, up to the Latest Practicable Date, there have been no material changes in the Group’s indebtedness and contingent liabilities since 30 June 2010.

### OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

Except for the operating lease commitment set forth above, the Group has neither entered into any other off-balance sheet commitments to guarantee the payment obligations of any third parties nor any off-balance sheet financial guarantees. The Group does not have any variable interest in any uncombined entity that provides financing, liquidity, market risk or credit support to the Group or engages in leasing or hedging or research and development services with the Group.

### MARKET RISKS

In the normal course of business, the Group is exposed to market risks relating primarily to interest rate risk and foreign exchange risks.

#### Interest rates

Interest rate risk of the Group principally relates to its margin loans receivable of approximately HK\$152.5 million, HK\$132.7 million and HK\$608.6 million as at 31 March 2008, 2009 and 2010 respectively, and short-term borrowings of approximately HK\$80.0 million, HK\$29.1 million and HK\$441.0 million as at 31 March 2008, 2009 and 2010 respectively. An increase in prevailing interest rates would lead to an increase in interest income from the Group’s margin clients and at the same time an increase in interest cost on the Group’s short-term

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## FINANCIAL INFORMATION

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borrowing. Throughout the Track Record Period and up to the Latest Practicable Date, the Group has not entered into any type of interest rate agreements or derivatives, to hedge against interest rate fluctuations.

### Foreign exchange

The businesses of the Group are principally operated in Hong Kong. The Group’s exposure to exchange rate fluctuations is derived from margin deposits in Japanese yen, Singapore dollars and US dollars with its respective brokerage firms engaged to execute transactions on behalf of its clients in overseas markets. The Group currently does not have a formal hedging policy in place and has not entered into any foreign currency exchange contracts or derivatives to hedge its foreign exchange risk.

### Inflation

Hong Kong has not experienced significant inflation in the past few years, and therefore inflation has not had a significant effect on the Group’s business during the Track Record Period. According to the Census and Statistics Department of Hong Kong, the overall inflation rate of Hong Kong, as represented by the composite consumer price index, was approximately 2.0%, 4.3% and 0.5% in the calendar years 2007, 2008 and 2009 respectively.

## DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

The Directors have confirmed that, as of the Latest Practicable Date, there were no circumstances which would give rise to a disclosure requirement under Rule 13.13 to 13.19 of the Listing Rules upon the listing of the Shares on the Stock Exchange.

## DIVIDENDS AND DISTRIBUTABLE RESERVES

Subject to the Companies Law and the Articles, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may deduct from any dividend or other monies payable to any of the Company’s equity holders or in respect of any Shares all sums of money (if any) presently payable by such equity holders to the Company on account of calls or otherwise.

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The declaration of dividends is subject to the discretion of the Directors and the amounts of dividends actually declared and paid will depend upon:

- general business conditions;
- results of operations;
- capital requirements and operating cash flow considerations;
- interests of the Shareholders; and
- any other factors that the Board may deem relevant.

The Board has absolute discretion in deciding whether to declare any dividend for any year and how much dividend to declare if it decides to declare a dividend. Any final dividend for a fiscal year will be subject to the Shareholders’ approval.

The Company’s past dividend payment history is not, and should not be taken as, an indication of its potential future practice on dividend payments. There is no assurance that dividends of any amount will be declared or distributed in any year.

No dividend was paid or declared by the Company since incorporation. Pursuant to the resolutions passed at the respective board of directors’ meetings of Bright Smart Securities and Bright Smart Futures on 31 March 2010, dividends of HK\$116,050,000 and HK\$20,000,000 were declared to respective shareholders of Bright Smart Securities and Bright Smart Futures as at 31 March 2010 and will be settled before [●].

The amount of final dividends actually distributed to the Shareholders will depend upon the earnings and financial position, operating requirements, capital requirements and any other conditions that the Directors may deem relevant and will be subject to the approval of the Shareholders. There is no assurance that dividends of any amount will be declared or distributed in any year. Historical dividends paid or declared by the Company may not be indicative of future dividend payments.

### **Distributable Reserves**

As of 31 March 2010, the aggregate amount of reserves available for distribution to equity shareholders of the company had approximately HK\$22.1 million.

### **PROPERTY INTERESTS**

Particulars of the Group’s property interests are set out in Appendix III to this document. DTZ Debenham Tie Leung Limited has valued the properties leased by the Group as at [30 June 2010]. A summary of valuations and valuation certificates issued by DTZ Debenham Tie Leung Limited are included in Appendix III to this document.

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### **SUBSEQUENT EVENTS IN RELATION TO THE SUBORDINATED LOANS FROM MANET GOOD**

As at the Latest Practicable Date, Bright Smart Securities had an outstanding subordinated loan balance of approximately HK\$100.0 million under the subordinated loan facilities from Manet Good. Please refer to the sub-section headed “Financial independence” under the section headed “Relationship with the Controlling Shareholder” for further background information on the subordinated loans from Manet Good.

The Directors confirmed that all outstanding subordinated loans will be repaid, out of its working capital, to Manet Good upon [●]. The Directors also confirmed that the Group has sufficient liquid capital for the repayment of the HK\$100.0 million of subordinated loan from Manet Good without utilising the net proceeds from the [●] and at the same time satisfying the FRR in relation to liquid capital of Bright Smart Securities.

### **NO MATERIAL ADVERSE CHANGE**

The Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in the Group’s financial or trading position or prospects since [31 March 2010] and there is no event since [31 March 2010] which would materially affect the information shown in the Company’s [combined] financial information included in the Accountants’ Report set out in Appendix I to this document, in each case except as otherwise disclosed herein.

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## APPENDIX I

## ACCOUNTANTS’ REPORT

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*The following is the text of a report, prepared for the purpose of incorporation in this document, received from the Company’s reporting accountants, KPMG, Certified Public Accountants, Hong Kong.*



8th Floor  
Prince’s Building  
10 Chater Road  
Central  
Hong Kong

[●] 2010

The Directors  
Bright Smart Securities & Commodities Group Limited

Dear Sirs,

### INTRODUCTION

We set out below our report on the financial information relating to Bright Smart Securities & Commodities Group Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) including the combined statements of comprehensive income, the combined statements of changes in equity and combined cash flow statements of the Group for each of the years ended 31 March 2008, 2009 and 2010 (the “Track Record Period”) and the combined balance sheets of the Group as at 31 March 2008, 2009 and 2010, together with the explanatory notes thereto (the “Financial Information”) for inclusion in the document of the Company dated [●] 2010 (the “Document”).

The Company was incorporated in the Cayman Islands on 4 August 2009 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation completed on 2 July 2010 (the “Reorganisation”) as detailed in the section headed “Group reorganisation” in Appendix V to the Document, the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the Company, Bright Smart Investment Holdings Limited, Merit Act Limited, Huge Dynasty Limited and Glow Dragon Limited, as they were incorporated shortly before 31 March 2010. We have, however, reviewed all significant transactions of these companies for the periods from their respective dates of incorporation to 31 March 2010, for the purpose of this report.

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The statutory financial statements of the other companies now comprising the Group, which were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) were audited during the Track Record Period by the respective statutory auditors as indicated below:

| Name of Company                                         | Financial periods                     | Statutory auditors                                 |
|---------------------------------------------------------|---------------------------------------|----------------------------------------------------|
| Bright Smart Securities<br>International (H.K.) Limited | Years ended 31 March<br>2008 and 2009 | Tam, Hui, Tse & Ho<br>Certified Public Accountants |
| Bright Smart Futures &<br>Commodities Co., Ltd          | Years ended 31 March<br>2008 and 2009 | Tam, Hui, Tse & Ho<br>Certified Public Accountants |

### BASIS OF PREPARATION

The Financial Information has been prepared by the directors of the Company based on the audited financial statements or, where appropriate, unaudited management accounts of the companies now comprising the Group, on the basis set out in Section A below, after making such adjustments as are appropriate. Adjustments have been made, for the purpose of this report, to restate these financial statements to conform with the accounting policies referred to in Section C, which are in accordance with HKFRSs promulgated by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). HKFRSs include Hong Kong Accounting Standards and Interpretations.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Information in accordance with HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our audit procedures.

### BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Track Record Period in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline “Prospectuses and the Reporting Accountant” (Statement 3.340) issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform our work to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

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## ACCOUNTANTS’ REPORT

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the reporting accountant’s judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity’s preparation and true and fair presentation of the Financial Information in order to design audit 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. An audit also includes 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 Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have not audited any financial statements of the companies comprising the Group in respect of any period subsequent to 31 March 2010.

### OPINION

In our opinion, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information, on the basis of presentation set out in Section A below and in accordance with the accounting policies set out in Section C below, gives a true and fair view of the Group’s combined results and cash flows for the Track Record Period, and the state of affairs of the Group as at 31 March 2008, 2009 and 2010.

#### A. BASIS OF PRESENTATION

Where applicable, Hong Kong Financial Reporting Standard 3 (“HKFRS 3”) “Business Combinations” has been applied in the preparation of the financial information contained in the Accountants’ Report for the Track Record Period. HKFRS 3 excludes, however from its scope business combinations involving entities or business under common control. As the ultimate controlling shareholder which controlled the companies now comprising the Group before and after the Reorganisation is the same and, consequently, there was a continuation of the risks and benefits to the ultimate controlling shareholder, the Financial Information has been prepared using the merger basis of accounting as if the Reorganisation had occurred as at the beginning of the earliest period presented. The net assets of the companies now comprising the Group are combined using the existing book values from the ultimate controlling shareholder’s perspective.

The combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group as set out in Section B for the Track Record Period include the results of operations of the companies now comprising the Group for the Track Record Period as if the current group structure had been in existence throughout the entire Track Record Period. The combined balance sheets of the Group as at 31 March 2008, 2009 and 2010 as set out in Section B have been prepared to present the state of affairs of the companies comprising the Group as at the respective dates as if the current group structure had been in existence as at the respective dates.

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Intra-group balances and transactions have been eliminated in full in preparing the Financial Information.

At the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

| Name of Company                                          | Place and date of incorporation                  | Issued and fully paid-up capital         | Attributable equity interest |          | Principal activities                    |
|----------------------------------------------------------|--------------------------------------------------|------------------------------------------|------------------------------|----------|-----------------------------------------|
|                                                          |                                                  |                                          | direct                       | indirect |                                         |
| Bright Smart Investment Holdings Limited. . . . .        | British Virgin Islands (BVI)/<br>22 October 2009 | US\$100<br>at US\$1<br>per share         | 100%                         | —        | Investment holding                      |
| Bright Smart Securities International (H.K.) Limited . . | Hong Kong/<br>10 August 1998                     | HK\$110,000,000<br>at HK\$1<br>per share | —                            | 100%     | Securities broking and margin financing |
| Bright Smart Futures & Commodities Co., Ltd . . . . .    | Hong Kong/<br>14 November 1995                   | HK\$20,000,000<br>at HK\$1<br>per share  | —                            | 100%     | Commodities and futures broking         |
| Merit Act Limited . . . . .                              | Hong Kong/<br>3 November 2009                    | HK\$1 at HK\$1<br>per share              | —                            | 100%     | Administrative services                 |
| Huge Dynasty Limited . . . . .                           | Hong Kong/<br>13 January 2010                    | HK\$1 at HK\$1<br>per share              | —                            | 100%     | Administrative services                 |
| Glow Dragon Limited . . . . .                            | Hong Kong/<br>21 January 2010                    | HK\$1 at HK\$1<br>per share              | —                            | 100%     | Administrative services                 |

There has been no change in the Company’s direct or indirect interest in the above subsidiaries since it became the holding company of the Group up to the date of this report.

## APPENDIX I

## ACCOUNTANTS’ REPORT

### B. FINANCIAL INFORMATION

#### 1. Combined statements of comprehensive income

|                                                                                                             | Section C | Year ended 31 March |                   |                   |
|-------------------------------------------------------------------------------------------------------------|-----------|---------------------|-------------------|-------------------|
|                                                                                                             |           | 2008                | 2009              | 2010              |
|                                                                                                             | Note      | HK\$                | HK\$              | HK\$              |
| <b>Turnover</b> . . . . .                                                                                   | 2         | 176,353,024         | 78,742,697        | 140,240,061       |
| <b>Other revenue</b> . . . . .                                                                              | 3         | 13,596,241          | 13,598,223        | 15,858,301        |
| <b>Other net (loss)/gain</b> . . . . .                                                                      | 4         | (451,822)           | (388,456)         | 98,558            |
|                                                                                                             |           | 189,497,443         | 91,952,464        | 156,196,920       |
| Staff costs . . . . .                                                                                       | 5(b)      | (22,383,705)        | (22,618,027)      | (36,235,322)      |
| Depreciation . . . . .                                                                                      |           | (2,537,556)         | (3,506,427)       | (3,608,315)       |
| Other operating expenses . . . . .                                                                          | 5(c)      | (32,733,432)        | (38,040,632)      | (35,743,667)      |
| <b>Profit from operations</b> . . . . .                                                                     |           | 131,842,750         | 27,787,378        | 80,609,616        |
| Finance costs . . . . .                                                                                     | 5(a)      | (59,702,174)        | (2,775,718)       | (8,398,836)       |
| <b>Profit before taxation</b> . . . . .                                                                     | 5         | 72,140,576          | 25,011,660        | 72,210,780        |
| Income tax . . . . .                                                                                        | 6         | (12,056,535)        | (3,876,306)       | (11,926,761)      |
| <b>Net profit and total comprehensive income attributable to equity shareholders for the year</b> . . . . . |           | <u>60,084,041</u>   | <u>21,135,354</u> | <u>60,284,019</u> |
| <b>Earnings per share</b>                                                                                   |           |                     |                   |                   |
| Basic and diluted (cents) . . . . .                                                                         | 9         | <u>12.02</u>        | <u>4.23</u>       | <u>12.06</u>      |

The accompanying notes form part of the Financial Information. Details of dividends declared during the year are set out in note 22(b).

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### 2. Combined balance sheets

|                                                            | Section C<br>Note | As at 31 March     |                    |                    |
|------------------------------------------------------------|-------------------|--------------------|--------------------|--------------------|
|                                                            |                   | 2008               | 2009               | 2010               |
|                                                            |                   | HK\$               | HK\$               | HK\$               |
| <b>Non-current assets</b>                                  |                   |                    |                    |                    |
| Fixed assets . . . . .                                     | 11                | 9,206,313          | 7,165,834          | 7,191,201          |
| Deferred tax assets . . . . .                              | 21(b)             | —                  | —                  | 464,985            |
| Other non-current<br>assets . . . . .                      | 12                | <u>2,400,000</u>   | <u>2,320,000</u>   | <u>4,582,607</u>   |
| <b>Total non-current<br/>assets . . . . .</b>              |                   | <u>11,606,313</u>  | <u>9,485,834</u>   | <u>12,238,793</u>  |
| <b>Current assets</b>                                      |                   |                    |                    |                    |
| Accounts receivable . . . . .                              | 13                | 247,943,542        | 222,332,823        | 763,133,465        |
| Other receivables, deposits<br>and prepayments . . . . .   | 14                | 5,066,425          | 3,276,168          | 9,420,641          |
| Cash and cash<br>equivalents . . . . .                     | 15                | <u>164,324,949</u> | <u>163,041,822</u> | <u>157,531,612</u> |
| <b>Total current assets . . . . .</b>                      |                   | <u>417,334,916</u> | <u>388,650,813</u> | <u>930,085,718</u> |
| <b>Current liabilities</b>                                 |                   |                    |                    |                    |
| Accounts payable . . . . .                                 | 17                | 139,779,811        | 153,366,495        | 189,095,829        |
| Accrued expenses and<br>other payables . . . . .           | 18                | 13,031,346         | 6,669,184          | 151,256,284        |
| Amount due to a related<br>company . . . . .               | 25(b)(iv)         | 80,000,000         | 29,100,000         | —                  |
| Bank loans . . . . .                                       | 19                | —                  | —                  | 441,000,000        |
| Current taxation . . . . .                                 | 21(a)             | <u>9,340,847</u>   | <u>895,908</u>     | <u>8,920,966</u>   |
| <b>Total current liabilities . . . . .</b>                 |                   | <u>242,152,004</u> | <u>190,031,587</u> | <u>790,273,079</u> |
| <b>Net current assets . . . . .</b>                        |                   | <u>175,182,912</u> | <u>198,619,226</u> | <u>139,812,639</u> |
| <b>Total assets less current<br/>liabilities . . . . .</b> |                   | 186,789,225        | 208,105,060        | 152,051,432        |
| <b>Non-current liabilities</b>                             |                   |                    |                    |                    |
| Deferred tax liabilities . . . . .                         | 21(b)             | <u>107,175</u>     | <u>287,656</u>     | <u>—</u>           |
| <b>Net assets . . . . .</b>                                |                   | <u>186,682,050</u> | <u>207,817,404</u> | <u>152,051,432</u> |
| <b>Equity</b>                                              |                   |                    |                    |                    |
| Share capital . . . . .                                    | 22(a)             | 110,000,000        | 110,000,000        | 130,000,009        |
| Retained profits . . . . .                                 |                   | <u>76,682,050</u>  | <u>97,817,404</u>  | <u>22,051,423</u>  |
| <b>Total equity . . . . .</b>                              |                   | <u>186,682,050</u> | <u>207,817,404</u> | <u>152,051,432</u> |

The accompanying notes form part of the Financial Information.

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### 3. Combined statements of changes in equity

|                                                           | Section C<br>Note | Attributable to equity<br>shareholders of the Company |                     |                 |
|-----------------------------------------------------------|-------------------|-------------------------------------------------------|---------------------|-----------------|
|                                                           |                   | Share<br>capital                                      | Retained<br>profits | Total<br>equity |
|                                                           |                   | HK\$                                                  | HK\$                | HK\$            |
| At 1 April 2007 . . . . .                                 |                   | 105,000,000                                           | 16,598,009          | 121,598,009     |
| Issued during the year . . .                              | 22(a)             | 5,000,000                                             | —                   | 5,000,000       |
| — Total comprehensive<br>income for the<br>year . . . . . |                   | —                                                     | 60,084,041          | 60,084,041      |
| At 31 March 2008 . . . . .                                |                   | 110,000,000                                           | 76,682,050          | 186,682,050     |
| — Total comprehensive<br>income for the<br>year . . . . . |                   | —                                                     | 21,135,354          | 21,135,354      |
| At 31 March 2009 . . . . .                                |                   | 110,000,000                                           | 97,817,404          | 207,817,404     |
| Issued during the year . . .                              | 22(a)             | 20,000,009                                            | —                   | 20,000,009      |
| — Total comprehensive<br>income for the<br>year . . . . . |                   | —                                                     | 60,284,019          | 60,284,019      |
| Dividends declared during<br>the year . . . . .           | 22(b)             | —                                                     | (136,050,000)       | (136,050,000)   |
| At 31 March 2010 . . . . .                                |                   | 130,000,009                                           | 22,051,423          | 152,051,432     |

The accompanying notes form part of the Financial Information.

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### 4. Combined cash flow statements

|                                                                                  | Section C<br>Note | Year ended 31 March    |                     |                      |
|----------------------------------------------------------------------------------|-------------------|------------------------|---------------------|----------------------|
|                                                                                  |                   | 2008                   | 2009                | 2010                 |
|                                                                                  |                   | HK\$                   | HK\$                | HK\$                 |
| <b>Operating activities</b>                                                      |                   |                        |                     |                      |
| Cash generated from/<br>(used in) operations . . .                               | 15(b)             | 2,567,334,261          | 60,710,242          | (424,183,839)        |
| Hong Kong Profits Tax<br>paid . . . . .                                          |                   | <u>(3,900,155)</u>     | <u>(12,140,764)</u> | <u>(4,654,344)</u>   |
| <b>Net cash generated from/<br/>(used in) operating<br/>activities . . . . .</b> |                   | <u>2,563,434,106</u>   | <u>48,569,478</u>   | <u>(428,838,183)</u> |
| <b>Investing activities</b>                                                      |                   |                        |                     |                      |
| Payment for purchase of<br>fixed assets . . . . .                                |                   | (10,321,507)           | (1,465,948)         | (3,640,315)          |
| Proceeds from sale of<br>fixed assets . . . . .                                  |                   | 7,000                  | —                   | 450,000              |
| Interest received . . . . .                                                      |                   | <u>8,021,645</u>       | <u>5,289,061</u>    | <u>3,017,115</u>     |
| <b>Net cash (used in)/<br/>generated from<br/>investing activities . . .</b>     |                   | <u>(2,292,862)</u>     | <u>3,823,113</u>    | <u>(173,200)</u>     |
| <b>Financing activities</b>                                                      |                   |                        |                     |                      |
| Repayment of bank loans .                                                        |                   | (2,419,000,000)        | —                   | —                    |
| Proceeds from bank loans                                                         |                   | —                      | —                   | 441,000,000          |
| Repayment of<br>sub-ordinated loan due<br>to a related company . .               |                   | (100,000,000)          | —                   | —                    |
| Proceed from amount due<br>to a related company . .                              |                   | 80,000,000             | —                   | —                    |
| Repayment of amount due<br>to a related company . .                              |                   | —                      | (50,900,000)        | (29,100,000)         |
| Interest paid . . . . .                                                          |                   | (59,702,174)           | (2,775,718)         | (8,398,836)          |
| Proceeds from shares<br>issued . . . . .                                         |                   | <u>5,000,000</u>       | <u>—</u>            | <u>20,000,009</u>    |
| <b>Net cash (used in)/<br/>generated from<br/>financing activities . . .</b>     |                   | <u>(2,493,702,174)</u> | <u>(53,675,718)</u> | <u>423,501,173</u>   |
| <b>Net increase/(decrease)<br/>in cash and cash<br/>equivalents . . . . .</b>    |                   | 67,439,070             | (1,283,127)         | (5,510,210)          |
| <b>Cash and cash<br/>equivalents at 1 April .</b>                                |                   | <u>96,885,879</u>      | <u>164,324,949</u>  | <u>163,041,822</u>   |
| <b>Cash and cash<br/>equivalents at<br/>31 March . . . . .</b>                   | 15(a)             | <u>164,324,949</u>     | <u>163,041,822</u>  | <u>157,531,612</u>   |

The accompanying notes form part of the Financial Information.

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### C. NOTES TO THE FINANCIAL INFORMATION

#### 1. Significant accounting policies

##### (a) *Statement of compliance*

The Financial Information set out in this report has been prepared in accordance with HKFRSs, which collective term includes Hong Kong Accounting Standards and related interpretations, promulgated by the HKICPA. Further details of the significant accounting policies adopted are set out in the remainder of this Section C.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised HKFRSs to the Track Record Period, except for any new standards or interpretations that are not yet effective for the accounting period ended 31 March 2010. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning 1 April 2009 are set out in note 28.

This Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

##### (b) *Basis of combination*

The Financial Information comprises the Company and its subsidiaries and has been prepared using the merger basis of accounting as if the Group had always been in existence, as further explained in Section A.

##### (c) *Basis of measurement*

The Financial Information is presented in Hong Kong Dollars (“HKD”). It is prepared on the historical cost basis.

##### (d) *Use of estimates and judgements*

The preparation of Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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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.

**(e) *Subsidiaries***

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

**(f) *Business combinations involving entities under common control***

Merger accounting is adopted for common control combinations in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

The combined Financial Information incorporates the financial statements items of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the controlling parties’ perspective. No amount is recognised in respect of goodwill or excess of acquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling interest.

The combined statements of comprehensive income include the results of each of the combining entities from the earliest date presented or since the date when combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the combined Financial Information are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

**(g) *Fixed assets***

Fixed assets are stated in the combined balance sheets at cost less accumulated depreciation and impairment losses (see note 1(i)).

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Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of fixed assets, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

|                          |                                                    |
|--------------------------|----------------------------------------------------|
| — Leasehold improvements | Shorter of the unexpired term of lease and 3 years |
| — Motor vehicles         | 5 years                                            |
| — Office equipment       | 5 years                                            |
| — Furniture and fixtures | 5 years                                            |
| — Computers and software | 5 years                                            |

Both the useful life of an asset and its residual value, if any, are reviewed annually.

### (h) *Operating lease charges*

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

### (i) *Impairment of assets*

#### (i) *Impairment of accounts receivable and other receivables*

Accounts receivable and other receivables that are carried at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For accounts receivable and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset’s carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior periods.

(ii) *Impairment of fixed assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that fixed assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset’s recoverable amount is estimated.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment loss is limited to the asset’s carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

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**(j) *Accounts receivable and other receivables***

Accounts receivable and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see note 1(i)).

**(k) *Accounts payable and other payables***

Accounts payable and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

**(l) *Interest-bearing borrowings***

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

**(m) *Cash and cash equivalents***

Cash and cash equivalents comprise cash at bank and on hand, and demand deposits with banks.

**(n) *Employee benefits***

- (i) Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees.
- (ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised as an expense in profit or loss as incurred.

**(o) *Income tax***

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

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- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

**(p) *Provisions and contingent liabilities***

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(q) *Revenue recognition***

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

**(i) *Brokerage commission income***

Brokerage commission income is recognised on a trade date basis when the relevant transactions are executed. Volume rebate to customers is recognised as a reduction in brokerage commission income when payment of the rebate is probable and the amounts can be estimated reliably. The fair value of the consideration received or receivable in respect of the initial trade under customer loyalty programmes is allocated between the award credits and other components of the trade by reference to their relative fair value. The award credits are deferred and revenue is recognised only when the Group fulfils its obligation to provide free or discounted brokerage services.

**(ii) *Interest income***

Interest income is recognised as it accrues using the effective interest method.

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(iii) *Handling and settlement fee income*

Handling and settlement fee income are recognised when the related services are rendered.

(r) *Translation of foreign currencies*

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

(s) *Fiduciary activities*

The Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of its customers. These assets and income arising thereon are excluded from the Financial Information, as they are not assets of the Group.

(t) *Related parties*

For the purposes of the Financial Information, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group’s parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

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### (u) *Segment reporting*

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Group’s most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group’s various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

### 2. Turnover

The principal activities of the Group are securities broking, margin financing and commodities and futures broking.

Turnover represents the brokerage commission from securities, commodities and futures broking and interest income from margin and initial public offering (“IPO”) financing as follows:

|                                                 | Year ended 31 March |                   |                    |
|-------------------------------------------------|---------------------|-------------------|--------------------|
|                                                 | 2008                | 2009              | 2010               |
|                                                 | HK\$                | HK\$              | HK\$               |
| Brokerage commission . . . . .                  | 104,121,211         | 72,536,416        | 114,638,993        |
| Interest income from margin financing . . . . . | 16,226,366          | 6,040,728         | 15,488,669         |
| Interest income from IPO financing . . . . .    | 56,005,447          | 165,553           | 10,112,399         |
|                                                 | <u>176,353,024</u>  | <u>78,742,697</u> | <u>140,240,061</u> |

The Group’s customer base is diversified and no customer had transactions which exceeded 10% of the Group’s revenue.

### 3. Other revenue

|                                       | Year ended 31 March |                   |                   |
|---------------------------------------|---------------------|-------------------|-------------------|
|                                       | 2008                | 2009              | 2010              |
|                                       | HK\$                | HK\$              | HK\$              |
| Interest income from                  |                     |                   |                   |
| — Authorised institutions . . . . .   | 6,988,646           | 4,477,199         | 202,527           |
| — Others . . . . .                    | 1,032,999           | 811,862           | 2,814,588         |
|                                       | <u>8,021,645</u>    | <u>5,289,061</u>  | <u>3,017,115</u>  |
| Handling and settlement fees. . . . . | 5,435,274           | 7,998,870         | 12,418,586        |
| Sundry income . . . . .               | 139,322             | 310,292           | 422,600           |
|                                       | <u>13,596,241</u>   | <u>13,598,223</u> | <u>15,858,301</u> |

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### 4. Other net (loss)/gain

|                                                                                 | Year ended 31 March |                  |               |
|---------------------------------------------------------------------------------|---------------------|------------------|---------------|
|                                                                                 | 2008                | 2009             | 2010          |
|                                                                                 | HK\$                | HK\$             | HK\$          |
| (Loss)/gain on disposal of fixed assets . . . . .                               | (61,476)            | —                | 443,367       |
| Error trades arising from securities, commodities and futures dealing . . . . . | (390,346)           | (383,479)        | (420,281)     |
| Net foreign exchange (loss)/gain . . . . .                                      | —                   | (4,977)          | 75,472        |
|                                                                                 | <u>(451,822)</u>    | <u>(388,456)</u> | <u>98,558</u> |

### 5. Profit before taxation

*Profit before taxation is arrived at after charging:*

|                                                       | Year ended 31 March |                   |                   |
|-------------------------------------------------------|---------------------|-------------------|-------------------|
|                                                       | 2008                | 2009              | 2010              |
|                                                       | HK\$                | HK\$              | HK\$              |
| (a) Finance costs:                                    |                     |                   |                   |
| Interest expense on                                   |                     |                   |                   |
| — Bank loans for IPO financing . . . . .              | 52,180,923          | 77,633            | 5,543,040         |
| — Other bank loans and overdrafts . . . . .           | 2,407,333           | 1,640             | 1,884,742         |
| — Loans from related companies. . . . .               | 5,113,918           | 2,696,445         | 971,054           |
|                                                       | <u>59,702,174</u>   | <u>2,775,718</u>  | <u>8,398,836</u>  |
| (b) Staff costs:                                      |                     |                   |                   |
| Salaries, allowances and benefits in kind . . . . .   | 14,915,057          | 19,955,297        | 26,265,935        |
| Discretionary bonuses . . . . .                       | 6,794,306           | 1,865,970         | 9,026,112         |
| Contributions to Mandatory Provident Fund . . . . .   | 674,342             | 796,760           | 943,275           |
|                                                       | <u>22,383,705</u>   | <u>22,618,027</u> | <u>36,235,322</u> |
| (c) Other operating expenses:                         |                     |                   |                   |
| Advertising and promotion expenses . . . . .          | 4,767,493           | 8,981,533         | 3,639,110         |
| Auditors’ remuneration . . . . .                      | 140,800             | 132,800           | 500,000           |
| Commission expense to overseas brokers . . . . .      | —                   | 24,378            | 1,222,037         |
| Handling and settlement expenses . . . . .            | 8,941,860           | 7,622,085         | 10,157,947        |
| Information and communication expenses . . . . .      | 5,929,773           | 8,026,908         | 9,009,477         |
| Legal and professional fees . . . . .                 | 208,393             | 801,432           | 300,486           |
| Management fee (note 25(c)(iv)) . . . . .             | 1,200,000           | —                 | —                 |
| Operating lease payments — property rentals . . . . . | 6,272,274           | 7,644,646         | 5,001,547         |
| Rates and building management fee . . . . .           | 906,221             | 939,704           | 1,005,676         |
| Miscellaneous expenses . . . . .                      | 4,366,618           | 3,867,146         | 4,907,387         |
|                                                       | <u>32,733,432</u>   | <u>38,040,632</u> | <u>35,743,667</u> |

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### 6. Income tax in the combined statements of comprehensive income

#### (a) *Taxation in the combined statements of comprehensive income represents:*

|                                                                                                                    | Year ended 31 March |                  |                   |
|--------------------------------------------------------------------------------------------------------------------|---------------------|------------------|-------------------|
|                                                                                                                    | 2008                | 2009             | 2010              |
|                                                                                                                    | HK\$                | HK\$             | HK\$              |
| <b>Current tax — Hong Kong Profits Tax</b>                                                                         |                     |                  |                   |
| Provision for the year . . . . .                                                                                   | 11,565,617          | 3,746,578        | 12,673,473        |
| (Over)/under-provision in respect of prior years . . . . .                                                         | —                   | (50,753)         | 5,929             |
|                                                                                                                    | <u>11,565,617</u>   | <u>3,695,825</u> | <u>12,679,402</u> |
| <b>Deferred tax</b>                                                                                                |                     |                  |                   |
| Origination and reversal of temporary differences ( <i>note 21(b)</i> ) . . . . .                                  | 490,918             | 186,606          | (752,641)         |
| Effect on deferred tax balance at 1 April 2008 resulting from a change in tax rate ( <i>note 21(b)</i> ) . . . . . | —                   | (6,125)          | —                 |
|                                                                                                                    | <u>12,056,535</u>   | <u>3,876,306</u> | <u>11,926,761</u> |

The provision for Hong Kong Profits Tax for the years ended 31 March 2009 and 2010 is calculated at 16.5% (2008: 17.5%) of the estimated assessable profits for the years.

#### (b) *Reconciliation between tax expense and accounting profit at applicable tax rates:*

|                                                                                              | Year ended 31 March |                   |                   |
|----------------------------------------------------------------------------------------------|---------------------|-------------------|-------------------|
|                                                                                              | 2008                | 2009              | 2010              |
|                                                                                              | HK\$                | HK\$              | HK\$              |
| Profit before taxation . . . . .                                                             | <u>72,140,576</u>   | <u>25,011,660</u> | <u>72,210,780</u> |
| Notional tax on profit before taxation, calculated at 16.5% (2008: 17.5%) . . . .            | 12,624,601          | 4,126,924         | 11,914,779        |
| Effect on deferred tax balance at 1 April 2008 resulting from a change in tax rate . . . . . | —                   | (6,125)           | —                 |
| Tax effect of non-deductible expenses . . .                                                  | 14,294              | 3,152             | 13,097            |
| Tax effect of non-taxable revenue . . . . .                                                  | (625,895)           | (168,874)         | (37,585)          |
| Tax effect of utilisation of unused tax losses not recognised . . . . .                      | (33,573)            | —                 | —                 |
| (Over)/under-provision in respect of prior years . . . . .                                   | —                   | (50,753)          | 5,929             |
| Others . . . . .                                                                             | <u>77,108</u>       | <u>(28,018)</u>   | <u>30,541</u>     |
| Actual tax expense . . . . .                                                                 | <u>12,056,535</u>   | <u>3,876,306</u>  | <u>11,926,761</u> |

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### 7. Directors’ remuneration

The remuneration paid or payable to each of the directors during the Track Record Period were as follows:

#### *Year ended 31 March 2008*

|                               | Directors’<br>fees | Salaries,<br>allowances<br>and benefits<br>in kind | Discretionary<br>bonuses | Contributions<br>to Mandatory<br>Provident<br>Fund | Total     |
|-------------------------------|--------------------|----------------------------------------------------|--------------------------|----------------------------------------------------|-----------|
|                               | HK\$               | HK\$                                               | HK\$                     | HK\$                                               | HK\$      |
| Yip Mow Lum . . . . .         | —                  | 448,000                                            | —                        | 12,000                                             | 460,000   |
| Chan Kai Fung . . . . .       | —                  | 894,000                                            | 1,666,833                | 11,000                                             | 2,571,833 |
| Kwok Sze Chi . . . . .        | —                  | —                                                  | —                        | —                                                  | —         |
| Chan Wing Shing, Wilson . .   | —                  | 291,942                                            | 140,190                  | 12,000                                             | 444,132   |
| Hui Wah Chiu . . . . .        | —                  | —                                                  | —                        | —                                                  | —         |
| Yu Yun Kong . . . . .         | —                  | —                                                  | —                        | —                                                  | —         |
| Szeto Wai Sun . . . . .       | —                  | —                                                  | —                        | —                                                  | —         |
| Ling Kwok Fai, Joseph . . . . | —                  | —                                                  | —                        | —                                                  | —         |
| Total . . . . .               | —                  | 1,633,942                                          | 1,807,023                | 35,000                                             | 3,475,965 |

#### *Year ended 31 March 2009*

|                               | Directors’<br>fees | Salaries,<br>allowances<br>and benefits<br>in kind | Discretionary<br>bonuses | Contributions<br>to Mandatory<br>Provident<br>Fund | Total     |
|-------------------------------|--------------------|----------------------------------------------------|--------------------------|----------------------------------------------------|-----------|
|                               | HK\$               | HK\$                                               | HK\$                     | HK\$                                               | HK\$      |
| Yip Mow Lum . . . . .         | —                  | 588,000                                            | —                        | 12,000                                             | 600,000   |
| Chan Kai Fung . . . . .       | —                  | 551,797                                            | 1,593,248                | 11,000                                             | 2,156,045 |
| Kwok Sze Chi . . . . .        | —                  | 573,419                                            | 72,560                   | 4,000                                              | 649,979   |
| Chan Wing Shing, Wilson . .   | —                  | 348,000                                            | 51,571                   | 12,000                                             | 411,571   |
| Hui Wah Chiu . . . . .        | —                  | —                                                  | —                        | —                                                  | —         |
| Yu Yun Kong . . . . .         | —                  | —                                                  | —                        | —                                                  | —         |
| Szeto Wai Sun . . . . .       | —                  | —                                                  | —                        | —                                                  | —         |
| Ling Kwok Fai, Joseph . . . . | —                  | —                                                  | —                        | —                                                  | —         |
| Total . . . . .               | —                  | 2,061,216                                          | 1,717,379                | 39,000                                             | 3,817,595 |

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### *Year ended 31 March 2010*

|                               | Directors’<br>fees | Salaries,<br>allowances<br>and benefits<br>in kind | Discretionary<br>bonuses | Contributions<br>to Mandatory<br>Provident<br>Fund | Total     |
|-------------------------------|--------------------|----------------------------------------------------|--------------------------|----------------------------------------------------|-----------|
|                               | HK\$               | HK\$                                               | HK\$                     | HK\$                                               | HK\$      |
| Yip Mow Lum . . . . .         | —                  | 450,000                                            | —                        | 12,000                                             | 462,000   |
| Chan Kai Fung . . . . .       | —                  | 480,000                                            | 1,055,656                | 12,000                                             | 1,547,656 |
| Kwok Sze Chi . . . . .        | —                  | 1,200,000                                          | 1,054,222                | 12,000                                             | 2,266,222 |
| Chan Wing Shing, Wilson . .   | —                  | 402,000                                            | 138,384                  | 12,000                                             | 552,384   |
| Hui Wah Chiu . . . . .        | —                  | 142,857                                            | —                        | —                                                  | 142,857   |
| Yu Yun Kong . . . . .         | —                  | —                                                  | —                        | —                                                  | —         |
| Szeto Wai Sun . . . . .       | —                  | —                                                  | —                        | —                                                  | —         |
| Ling Kwok Fai, Joseph . . . . | —                  | —                                                  | —                        | —                                                  | —         |
| Total . . . . .               | —                  | 2,674,857                                          | 2,248,262                | 48,000                                             | 4,971,119 |

During the Track Record Period, no director received any emoluments from the Group as an inducement to join or leave the Group or compensation for loss of office and, no director waived or has agreed to waive any emoluments.

### 8. Individual with highest emoluments

The five individuals with the highest emoluments include 3 directors for the year ended 31 March 2008, 3 directors for the year ended 31 March 2009 and 3 directors for the year ended 31 March 2010 whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the remaining individuals are as follows:

|                                                     | Year ended 31 March    |                  |                  |
|-----------------------------------------------------|------------------------|------------------|------------------|
|                                                     | 2008                   | 2009             | 2010             |
|                                                     | HK\$                   | HK\$             | HK\$             |
| Salaries, allowances and benefits in kind . . . . . | 791,000                | 1,260,274        | 2,700,000        |
| Discretionary bonuses . . . . .                     | 231,659                | 75,091           | 1,335,510        |
| Contributions to Mandatory Provident Fund . . .     | 20,000                 | 18,000           | 23,000           |
|                                                     | <u>1,042,659</u>       | <u>1,353,365</u> | <u>4,058,510</u> |
|                                                     | Numbers of individuals |                  |                  |
|                                                     | Year ended 31 March    |                  |                  |
|                                                     | 2008                   | 2009             | 2010             |
| Nil to HK\$1,000,000 . . . . .                      | 2                      | 2                | 1                |
| HK\$3,000,001 to HK\$3,500,000 . . . . .            | <u>Nil</u>             | <u>Nil</u>       | <u>1</u>         |

In March 2009, an amount of HK\$1,000,000 was paid to Wong Wing Man, the present head of Information Technology Department of the Group, as an inducement upon joining the Group, of which HK\$4,169 and HK\$100,000 were recognised as staff costs in the years ended 31 March 2009 and 2010 respectively.

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## ACCOUNTANTS’ REPORT

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Except for the above, no emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the Track Record Period.

### 9. Earnings per share

The calculation of basic earnings per share for the Track Record Period is based on the net profit attributable to equity shareholders of the Company for each of the years ended 31 March 2008, 2009 and 2010, and on the number of shares in issue as at the date of the Document as if the shares were outstanding throughout the entire Track Record Period.

There were no dilutive potential ordinary shares during the Track Record Period, therefore, basic earnings per share equals to diluted earnings per share.

### 10. Segment reporting

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group’s most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Securities broking — provision of broking services in securities traded in Hong Kong and margin financing services to those broking clients.
- Commodities and futures broking — provision of broking services in commodities and futures contracts traded in Hong Kong and selected overseas markets.

#### (a) *Segment results, assets and liabilities*

For the purposes of assessing segment performance and allocating resources between segments, the Group’s senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets and current assets with the exception of deferred tax assets and other corporate assets. Segment liabilities include trade creditors and accruals attributable to the activities of the individual segments.

The measure used for reporting segment profit is earnings before finance costs and taxes (“EBIT”). To arrive at EBIT, the Group’s earnings are further adjusted for items not specifically attributed to individual segments, such as corporate administration costs.

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### (b) Segment information

|                                                                      | Year ended 31 March 2008 |                                       |               |
|----------------------------------------------------------------------|--------------------------|---------------------------------------|---------------|
|                                                                      | Securities<br>broking    | Commodities<br>and futures<br>broking | Total         |
|                                                                      | HK\$                     | HK\$                                  | HK\$          |
| Revenue from external customers:                                     |                          |                                       |               |
| — Brokerage commission . . . . .                                     | 100,313,962              | 3,807,249                             | 104,121,211   |
| — Interest income from margin financing . . . . .                    | 16,226,366               | —                                     | 16,226,366    |
| — Interest income from IPO financing . . . . .                       | 56,005,447               | —                                     | 56,005,447    |
| Combined turnover . . . . .                                          | 172,545,775              | 3,807,249                             | 176,353,024   |
| Handling and settlement fees . . . . .                               | 5,435,274                | —                                     | 5,435,274     |
| Reportable segment revenue . . . . .                                 | 177,981,049              | 3,807,249                             | 181,788,298   |
| Reportable segment profit (EBIT) . . . . .                           | 129,794,337              | 2,048,413                             | 131,842,750   |
| Depreciation for the year . . . . .                                  | (2,517,815)              | (19,741)                              | (2,537,556)   |
| Other interest income . . . . .                                      | 7,428,734                | 592,911                               | 8,021,645     |
| Finance costs . . . . .                                              | (59,702,174)             | —                                     | (59,702,174)  |
| Additions to non-current segment assets<br>during the year . . . . . | 10,321,507               | —                                     | 10,321,507    |
| As at the 31 March 2008                                              |                          |                                       |               |
|                                                                      | Securities<br>broking    | Commodities<br>and futures<br>broking | Total         |
|                                                                      | HK\$                     | HK\$                                  | HK\$          |
| Reportable segment assets . . . . .                                  | 373,944,333              | 54,996,896                            | 428,941,229   |
| Reportable segment liabilities . . . . .                             | (201,179,323)            | (31,631,834)                          | (232,811,157) |
| Year ended 31 March 2009                                             |                          |                                       |               |
|                                                                      | Securities<br>broking    | Commodities<br>and futures<br>broking | Total         |
|                                                                      | HK\$                     | HK\$                                  | HK\$          |
| Revenue from external customers:                                     |                          |                                       |               |
| — Brokerage commission . . . . .                                     | 62,324,668               | 10,211,748                            | 72,536,416    |
| — Interest income from margin financing . . . . .                    | 6,040,728                | —                                     | 6,040,728     |
| — Interest income from IPO financing . . . . .                       | 165,553                  | —                                     | 165,553       |
| Combined turnover . . . . .                                          | 68,530,949               | 10,211,748                            | 78,742,697    |
| Handling and settlement fees . . . . .                               | 7,998,870                | —                                     | 7,998,870     |
| Reportable segment revenue . . . . .                                 | 76,529,819               | 10,211,748                            | 86,741,567    |
| Reportable segment profit (EBIT) . . . . .                           | 21,190,610               | 6,596,768                             | 27,787,378    |
| Depreciation for the year . . . . .                                  | (3,486,687)              | (19,740)                              | (3,506,427)   |
| Other interest income . . . . .                                      | 4,867,480                | 421,581                               | 5,289,061     |
| Finance costs . . . . .                                              | (2,775,718)              | —                                     | (2,775,718)   |
| Additions to non-current segment assets<br>during the year . . . . . | 1,465,948                | —                                     | 1,465,948     |

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|                                          | As at the 31 March 2009 |                                       |                      |
|------------------------------------------|-------------------------|---------------------------------------|----------------------|
|                                          | Securities<br>broking   | Commodities<br>and futures<br>broking | Total                |
|                                          | HK\$                    | HK\$                                  | HK\$                 |
| Reportable segment assets . . . . .      | 312,242,088             | 85,894,559                            | 398,136,647          |
| Reportable segment liabilities . . . . . | <u>(132,624,842)</u>    | <u>(56,510,837)</u>                   | <u>(189,135,679)</u> |

|                                                                      | Year ended 31 March 2010 |                                       |                    |
|----------------------------------------------------------------------|--------------------------|---------------------------------------|--------------------|
|                                                                      | Securities<br>broking    | Commodities<br>and futures<br>broking | Total              |
|                                                                      | HK\$                     | HK\$                                  | HK\$               |
| Revenue from external customers:                                     |                          |                                       |                    |
| — Brokerage commission . . . . .                                     | 92,702,616               | 21,936,377                            | 114,638,993        |
| — Interest income from margin financing . . . . .                    | 15,488,669               | —                                     | 15,488,669         |
| — Interest income from IPO financing . . . . .                       | <u>10,112,399</u>        | <u>—</u>                              | <u>10,112,399</u>  |
| Combined turnover . . . . .                                          | 118,303,684              | 21,936,377                            | 140,240,061        |
| Handling and settlement fees . . . . .                               | <u>12,418,586</u>        | <u>—</u>                              | <u>12,418,586</u>  |
| Reportable segment revenue . . . . .                                 | <u>130,722,270</u>       | <u>21,936,377</u>                     | <u>152,658,647</u> |
| Reportable segment profit (EBIT) . . . . .                           | <u>65,468,556</u>        | <u>15,185,823</u>                     | <u>80,654,379</u>  |
| Depreciation for the year . . . . .                                  | (3,584,272)              | (24,043)                              | (3,608,315)        |
| Other interest income . . . . .                                      | 2,997,984                | 19,131                                | 3,017,115          |
| Finance costs . . . . .                                              | (8,398,836)              | —                                     | (8,398,836)        |
| Additions to non-current segment assets<br>during the year . . . . . | <u>3,611,630</u>         | <u>28,685</u>                         | <u>3,640,315</u>   |

|                                          | As at the 31 March 2010 |                                       |                      |
|------------------------------------------|-------------------------|---------------------------------------|----------------------|
|                                          | Securities<br>broking   | Commodities<br>and futures<br>broking | Total                |
|                                          | HK\$                    | HK\$                                  | HK\$                 |
| Reportable segment assets . . . . .      | 831,975,174             | 109,883,352                           | 941,858,526          |
| Reportable segment liabilities . . . . . | <u>(694,156,408)</u>    | <u>(87,149,951)</u>                   | <u>(781,306,359)</u> |

(c) *Reconciliation of reportable segment profit, assets and liabilities*

|                                            | Year ended 31 March |                   |                   |
|--------------------------------------------|---------------------|-------------------|-------------------|
|                                            | 2008                | 2009              | 2010              |
|                                            | HK\$                | HK\$              | HK\$              |
| <b>Profit</b>                              |                     |                   |                   |
| Reportable segment profit (EBIT) . . . . . | 131,842,750         | 27,787,378        | 80,654,379        |
| Finance costs . . . . .                    | (59,702,174)        | (2,775,718)       | (8,398,836)       |
| Unallocated corporate expenses . . . . .   | <u>—</u>            | <u>—</u>          | <u>(44,763)</u>   |
| Combined profit before taxation . . . . .  | <u>72,140,576</u>   | <u>25,011,660</u> | <u>72,210,780</u> |

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|                                             | As at 31 March       |                      |                      |
|---------------------------------------------|----------------------|----------------------|----------------------|
|                                             | 2008                 | 2009                 | 2010                 |
|                                             | HK\$                 | HK\$                 | HK\$                 |
| <b>Assets</b>                               |                      |                      |                      |
| Reportable segment assets . . . . .         | 428,941,229          | 398,136,647          | 941,858,526          |
| Deferred tax assets . . . . .               | —                    | —                    | 464,985              |
| Unallocated corporate assets . . . . .      | —                    | —                    | 1,000                |
| Combined total assets . . . . .             | <u>428,941,229</u>   | <u>398,136,647</u>   | <u>942,324,511</u>   |
| <b>Liabilities</b>                          |                      |                      |                      |
| Reportable segment liabilities . . . . .    | (232,811,157)        | (189,135,679)        | (781,306,359)        |
| Current taxation . . . . .                  | (9,340,847)          | (895,908)            | (8,920,966)          |
| Deferred tax liabilities . . . . .          | (107,175)            | (287,656)            | —                    |
| Unallocated corporate liabilities . . . . . | —                    | —                    | (45,754)             |
| Combined total liabilities . . . . .        | <u>(242,259,179)</u> | <u>(190,319,243)</u> | <u>(790,273,079)</u> |

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### 11. Fixed assets

|                                     | Leasehold<br>improvements | Motor<br>vehicles | Office<br>equipment | Furniture<br>and<br>fixtures | Computers<br>and<br>software | Total       |
|-------------------------------------|---------------------------|-------------------|---------------------|------------------------------|------------------------------|-------------|
|                                     | HK\$                      | HK\$              | HK\$                | HK\$                         | HK\$                         | HK\$        |
| <b>Cost:</b>                        |                           |                   |                     |                              |                              |             |
| At 1 April 2007 . . . . .           | 18,000                    | 1,049,000         | 1,916,248           | 1,807,400                    | 317,015                      | 5,107,663   |
| Additions . . . . .                 | 6,000,192                 | —                 | 801,707             | 743,358                      | 2,776,250                    | 10,321,507  |
| Disposals . . . . .                 | (18,000)                  | —                 | (78,500)            | —                            | —                            | (96,500)    |
| At 31 March 2008 . . . . .          | 6,000,192                 | 1,049,000         | 2,639,455           | 2,550,758                    | 3,093,265                    | 15,332,670  |
| At 1 April 2008 . . . . .           | 6,000,192                 | 1,049,000         | 2,639,455           | 2,550,758                    | 3,093,265                    | 15,332,670  |
| Additions . . . . .                 | 378,588                   | —                 | 255,543             | 201,963                      | 629,854                      | 1,465,948   |
| At 31 March 2009 . . . . .          | 6,378,780                 | 1,049,000         | 2,894,998           | 2,752,721                    | 3,723,119                    | 16,798,618  |
| At 1 April 2009 . . . . .           | 6,378,780                 | 1,049,000         | 2,894,998           | 2,752,721                    | 3,723,119                    | 16,798,618  |
| Additions . . . . .                 | 1,430,181                 | 175,000           | 421,197             | 656,234                      | 957,703                      | 3,640,315   |
| Disposals . . . . .                 | —                         | (1,049,000)       | —                   | —                            | —                            | (1,049,000) |
| At 31 March 2010 . . . . .          | 7,808,961                 | 175,000           | 3,316,195           | 3,408,955                    | 4,680,822                    | 19,389,933  |
| <b>Accumulated depreciation:</b>    |                           |                   |                     |                              |                              |             |
| At 1 April 2007 . . . . .           | 7,200                     | 819,600           | 1,133,745           | 1,464,482                    | 191,798                      | 3,616,825   |
| Charge for the year . . . . .       | 1,286,319                 | 149,800           | 383,486             | 349,740                      | 368,211                      | 2,537,556   |
| Written back on disposals . . . . . | (8,400)                   | —                 | (19,624)            | —                            | —                            | (28,024)    |
| At 31 March 2008 . . . . .          | 1,285,119                 | 969,400           | 1,497,607           | 1,814,222                    | 560,009                      | 6,126,357   |
| At 1 April 2008 . . . . .           | 1,285,119                 | 969,400           | 1,497,607           | 1,814,222                    | 560,009                      | 6,126,357   |
| Charge for the year . . . . .       | 2,095,325                 | 39,800            | 422,497             | 271,461                      | 677,344                      | 3,506,427   |
| At 31 March 2009 . . . . .          | 3,380,444                 | 1,009,200         | 1,920,104           | 2,085,683                    | 1,237,353                    | 9,632,784   |
| At 1 April 2009 . . . . .           | 3,380,444                 | 1,009,200         | 1,920,104           | 2,085,683                    | 1,237,353                    | 9,632,784   |
| Charge for the year . . . . .       | 2,226,938                 | 36,084            | 333,959             | 210,336                      | 800,998                      | 3,608,315   |
| Written back on disposals . . . . . | —                         | (1,042,367)       | —                   | —                            | —                            | (1,042,367) |
| At 31 March 2010 . . . . .          | 5,607,382                 | 2,917             | 2,254,063           | 2,296,019                    | 2,038,351                    | 12,198,732  |
| <b>Net book value:</b>              |                           |                   |                     |                              |                              |             |
| At 31 March 2008 . . . . .          | 4,715,073                 | 79,600            | 1,141,848           | 736,536                      | 2,533,256                    | 9,206,313   |
| At 31 March 2009 . . . . .          | 2,998,336                 | 39,800            | 974,894             | 667,038                      | 2,485,766                    | 7,165,834   |
| At 31 March 2010 . . . . .          | 2,201,579                 | 172,083           | 1,062,132           | 1,112,936                    | 2,642,471                    | 7,191,201   |

### 12. Other non-current assets

|                                                                    | As at 31 March |           |           |
|--------------------------------------------------------------------|----------------|-----------|-----------|
|                                                                    | 2008           | 2009      | 2010      |
|                                                                    | HK\$           | HK\$      | HK\$      |
| Statutory deposits with exchanges and<br>clearing houses . . . . . | 2,400,000      | 2,320,000 | 4,582,607 |

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### 13. Accounts receivable

|                                 | As at 31 March     |                    |                    |
|---------------------------------|--------------------|--------------------|--------------------|
|                                 | 2008               | 2009               | 2010               |
|                                 | HK\$               | HK\$               | HK\$               |
| Accounts receivable from        |                    |                    |                    |
| — Cash clients . . . . .        | 10,319,468         | 30,182,031         | 55,447,328         |
| — Margin clients . . . . .      | 152,477,901        | 132,709,428        | 608,568,325        |
| — Clearing houses . . . . .     | 85,146,173         | 57,273,098         | 91,775,026         |
| — Brokers and dealers . . . . . | —                  | 2,168,266          | 7,342,786          |
|                                 | <u>247,943,542</u> | <u>222,332,823</u> | <u>763,133,465</u> |

Accounts receivable from cash clients are aged within 30 days. These balances relate to a wide range of customers for whom there was no recent history of default. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are considered fully recoverable.

Margin loans due from margin clients are current and repayable on demand. Margin clients are required to pledge securities collateral to the Group in order to obtain credit facilities for securities trading. The amount of credit facilities granted to them is determined by the discounted value of securities accepted by the Group. At 31 March 2008, 2009 and 2010, the total market value of securities pledged as collateral in respect of the loans to margin clients was approximately HK\$649,641,464, HK\$435,323,475 and HK\$1,934,244,187 respectively.

Accounts receivable from clearing houses, brokers and dealers are current. These represent (1) trades pending settlement arising from the business of dealing in securities, which are normally due within a few days after the trade date and (2) margin deposits arising from the business of dealing in future contracts.

Further details on the Group’s credit policy are set out in note 24(a).

### 14. Other receivables, deposits and prepayments

|                                       | As at 31 March   |                  |                  |
|---------------------------------------|------------------|------------------|------------------|
|                                       | 2008             | 2009             | 2010             |
|                                       | HK\$             | HK\$             | HK\$             |
| Rental and utility deposits . . . . . | 2,477,876        | 1,481,651        | 2,973,574        |
| Prepayments . . . . .                 | 1,738,178        | 1,474,037        | 6,127,716        |
| Other receivables . . . . .           | 850,371          | 320,480          | 319,351          |
|                                       | <u>5,066,425</u> | <u>3,276,168</u> | <u>9,420,641</u> |

Included in the above balances are amounts of HK\$3,180,042, HK\$2,673,899 and HK\$2,470,188 as at 31 March 2008, 2009 and 2010 respectively which are expected to be recovered in more than one year.

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### 15. Cash and cash equivalents

(a) *Cash and cash equivalents comprise:*

|                                    | As at 31 March     |                    |                    |
|------------------------------------|--------------------|--------------------|--------------------|
|                                    | 2008               | 2009               | 2010               |
|                                    | HK\$               | HK\$               | HK\$               |
| Deposits with banks . . . . .      | 159,151,348        | 116,683,514        | 63,572,823         |
| Cash at bank and in hand . . . . . | 5,173,601          | 46,358,308         | 93,958,789         |
|                                    | <u>164,324,949</u> | <u>163,041,822</u> | <u>157,531,612</u> |

The Group maintains segregated accounts with authorised institutions to hold client money in the normal course of business.

At 31 March 2008, 2009 and 2010, client money maintained in segregated accounts not otherwise dealt with in the Financial Information amounted to HK\$411,120,431, HK\$364,086,790 and HK\$624,623,827 respectively.

(b) *Reconciliation of profit before taxation to cash generated from/(used in) operations:*

|                                                                                        | Year ended 31 March  |                    |                      |
|----------------------------------------------------------------------------------------|----------------------|--------------------|----------------------|
|                                                                                        | 2008                 | 2009               | 2010                 |
|                                                                                        | HK\$                 | HK\$               | HK\$                 |
| Profit before taxation . . . . .                                                       | 72,140,576           | 25,011,660         | 72,210,780           |
| Adjustments for:                                                                       |                      |                    |                      |
| — Depreciation . . . . .                                                               | 2,537,556            | 3,506,427          | 3,608,315            |
| — Finance costs . . . . .                                                              | 59,702,174           | 2,775,718          | 8,398,836            |
| — Interest income (excluding interest income from margin and IPO financings) . . . . . | (8,021,645)          | (5,289,061)        | (3,017,115)          |
| — Loss/(gain) on disposals of fixed assets                                             | 61,476               | —                  | (443,367)            |
| Changes in working capital:                                                            |                      |                    |                      |
| — Decrease/(increase) in other non-current assets . . . . .                            | 200,825              | 80,000             | (2,262,607)          |
| — Decrease/(increase) in accounts receivable . . . . .                                 | 2,324,632,317        | 25,610,719         | (540,800,642)        |
| — Decrease/(increase) in other receivables, deposits and prepayments . . . . .         | 4,605,979            | 1,790,257          | (6,144,473)          |
| — Increase in accounts payable . . . . .                                               | 103,868,596          | 13,586,684         | 35,729,334           |
| — Increase/(decrease) in accrued expenses and other payables . . . . .                 | <u>7,606,407</u>     | <u>(6,362,162)</u> | <u>8,537,100</u>     |
| Cash generated from/(used in) operations . . .                                         | <u>2,567,334,261</u> | <u>60,710,242</u>  | <u>(424,183,839)</u> |

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### 16. Loan to an officer

Loans to an officer of the Group disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

#### *Loan made by the Group*

|                                       |                                                                                |
|---------------------------------------|--------------------------------------------------------------------------------|
| Name of borrower                      | Chan Wing Shing, Wilson                                                        |
| Position                              | Director                                                                       |
| Terms of the loan                     |                                                                                |
| — duration and repayment terms        | 40 monthly instalments of \$5,000 each from<br>1 November 2006 to 1 March 2010 |
| — loan amount                         | HK\$200,000                                                                    |
| — interest rate                       | Interest-free                                                                  |
| — security/guarantee                  | Nil                                                                            |
| Balance of the loan                   |                                                                                |
| — at 31 March 2007                    | HK\$180,000                                                                    |
| — at 31 March 2008                    | HK\$120,000                                                                    |
| — at 31 March 2009                    | HK\$60,000                                                                     |
| — at 31 March 2010                    | Nil                                                                            |
| Maximum balance outstanding           |                                                                                |
| — during the year ended 31 March 2010 | HK\$55,000                                                                     |
| — during the year ended 31 March 2009 | HK\$115,000                                                                    |
| — during the year ended 31 March 2008 | HK\$175,000                                                                    |

The loan to an officer of the Group was fully settled prior to 31 March 2010. There was no amount due but unpaid, nor any provision made against the principal amount of these loans at 31 March 2008, 2009 and 2010.

### 17. Accounts payable

|                             | As at 31 March     |                    |                    |
|-----------------------------|--------------------|--------------------|--------------------|
|                             | 2008               | 2009               | 2010               |
|                             | HK\$               | HK\$               | HK\$               |
| Accounts payable            |                    |                    |                    |
| — Cash clients . . . . .    | 55,515,584         | 32,855,685         | 68,825,766         |
| — Margin clients . . . . .  | 64,962,594         | 71,492,575         | 112,830,849        |
| — Clearing houses . . . . . | 19,301,633         | 49,018,235         | 7,439,214          |
|                             | <u>139,779,811</u> | <u>153,366,495</u> | <u>189,095,829</u> |

All of the accounts payable are due within one month or on demand.

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### 18. Accrued expenses and other payables

|                                                             | As at 31 March    |                  |                    |
|-------------------------------------------------------------|-------------------|------------------|--------------------|
|                                                             | 2008              | 2009             | 2010               |
|                                                             | HK\$              | HK\$             | HK\$               |
| Commission rebate payable. . . . .                          | 5,743,781         | 2,767,510        | 4,822,379          |
| Accrued bonuses . . . . .                                   | 3,119,835         | 715,375          | 4,289,438          |
| Stamp duty, trading levy and trading fee payables . . . . . | 2,666,355         | 1,687,291        | 2,285,525          |
| Dividends payable ( <i>note 22(b)</i> ) . . . . .           | —                 | —                | 136,050,000        |
| Other payables . . . . .                                    | 1,501,375         | 1,499,008        | 3,808,942          |
|                                                             | <u>13,031,346</u> | <u>6,669,184</u> | <u>151,256,284</u> |

All accrued expenses and other payables are expected to be settled or recognised as income within one year.

### 19. Bank loans

|                                        | As at 31 March |      |             |
|----------------------------------------|----------------|------|-------------|
|                                        | 2008           | 2009 | 2010        |
|                                        | HK\$           | HK\$ | HK\$        |
| Secured short-term bank loans. . . . . | —              | —    | 441,000,000 |

All the bank loans are repayable within one year and classified as current liabilities. The carrying amounts of the bank borrowings approximate their fair value.

The bank loans as at 31 March 2010 are interest-bearing at 1.05% per annum. Securities collateral deposited by the Group’s margin clients was re-pledged to banks to secure these loan facilities. The fair value of the collateral re-pledged to banks as at 31 March 2010 amounted to HK\$757,588,500. Such banking facilities amounted to HK\$1,016,000,000 and were utilised to the extent of HK\$441,000,000.

### 20. Employee retirement benefits — defined contribution retirement plan

The Group operates a Mandatory Provident Fund Scheme (“the MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the plan vest immediately.

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### 21. Income tax in the combined balance sheets

(a) *Current taxation in the combined balance sheets represents:*

|                                        | As at 31 March   |                |                  |
|----------------------------------------|------------------|----------------|------------------|
|                                        | 2008             | 2009           | 2010             |
|                                        | HK\$             | HK\$           | HK\$             |
| Provision for Hong Kong Profits Tax    |                  |                |                  |
| for the year . . . . .                 | 11,565,617       | 3,746,578      | 12,673,473       |
| Provisional Profits Tax paid . . . . . | (2,224,770)      | (2,850,670)    | (3,752,507)      |
|                                        | <u>9,340,847</u> | <u>895,908</u> | <u>8,920,966</u> |

(b) *Deferred tax (assets)/liabilities represent:*

The components of deferred tax (assets)/liabilities recognised in the combined balance sheets and the movements during the year are as follows:

|                                          | Prepaid<br>bonus | Accrued<br>bonuses | Depreciation<br>allowance<br>in excess of<br>the related<br>depreciation | Total            |
|------------------------------------------|------------------|--------------------|--------------------------------------------------------------------------|------------------|
|                                          | HK\$             | HK\$               | HK\$                                                                     | HK\$             |
| Deferred tax arising from:               |                  |                    |                                                                          |                  |
| At 1 April 2007 . . . . .                | —                | (383,743)          | —                                                                        | (383,743)        |
| (Credited)/charged to profit or loss     |                  |                    |                                                                          |                  |
| (note 6(a)). . . . .                     | —                | (162,228)          | 653,146                                                                  | 490,918          |
| At 31 March 2008 . . . . .               | <u>—</u>         | <u>(545,971)</u>   | <u>653,146</u>                                                           | <u>107,175</u>   |
| At 1 April 2008 . . . . .                | —                | (545,971)          | 653,146                                                                  | 107,175          |
| Charged/(credited) to profit or loss     |                  |                    |                                                                          |                  |
| (note 6(a)). . . . .                     | 164,312          | 396,736            | (380,567)                                                                | 180,481          |
| At 31 March 2009 . . . . .               | <u>164,312</u>   | <u>(149,235)</u>   | <u>272,579</u>                                                           | <u>287,656</u>   |
| At 1 April 2009 . . . . .                | 164,312          | (149,235)          | 272,579                                                                  | 287,656          |
| Credited to profit or loss (note 6(a)) . | (16,500)         | (558,522)          | (177,619)                                                                | (752,641)        |
| At 31 March 2010 . . . . .               | <u>147,812</u>   | <u>(707,757)</u>   | <u>94,960</u>                                                            | <u>(464,985)</u> |

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### 22. Share capital, reserves and dividends

#### (a) *Share capital*

Share capital in the combined balance sheets as at 31 March 2008, 2009 and 2010 represents the aggregate amount of paid-up capital of Bright Smart Securities & Commodities Group Limited, Bright Smart Securities International (H.K.) Limited, Bright Smart Futures & Commodities Co., Ltd and Merit Act Limited in which the equity shareholders of the Company held direct/indirect interests.

#### *Increase in paid-up share capital*

The Company was incorporated in the Cayman Islands on 4 August 2009 with an authorised share capital of US\$50,000 divided into 50,000 ordinary shares of US\$1 each. The Company issued 1 ordinary share for a total consideration of US\$1 (equivalent to HK\$8) on 4 August 2009. Further details of the changes in authorised and issued share capital of the Company after 31 March 2010 are set out in the section headed “Changes in authorised and issued share capital of the Company” in Appendix V to the Document.

On 13 February 2008, Bright Smart Futures & Commodities Co., Ltd issued 5,000,000 ordinary shares of HK\$1 each for a total consideration of HK\$5,000,000.

On 21 July 2009, Bright Smart Securities International (H.K.) Limited issued 20,000,000 ordinary shares of HK\$1 each for a total consideration of HK\$20,000,000.

On 3 November 2009, Merit Act Limited issued 1 ordinary share for a total consideration of HK\$1.

#### (b) *Dividends*

Dividends declared during the year are as follows:

|                                              | As at 31 March |      |             |
|----------------------------------------------|----------------|------|-------------|
|                                              | 2008           | 2009 | 2010        |
|                                              | HK\$           | HK\$ | HK\$        |
| Dividends declared during the year . . . . . | —              | —    | 136,050,000 |

Pursuant to the resolutions passed at the respective board of directors’ meetings of Bright Smart Securities International (H.K.) Limited and Bright Smart Futures & Commodities Co., Ltd on 31 March 2010, dividends of HK\$116,050,000 and HK\$20,000,000 were declared to the respective shareholders of Bright Smart Securities International (H.K.) Limited and Bright Smart Futures & Commodities Co., Ltd as at 31 March 2010.

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### (c) *Distributability of reserves*

The reserves of the Company are distributable to the equity shareholders subject to the provisions of the Company’s Memorandum and Articles of Association and provided that immediately following the distribution the Company is able to pay its debts as they fall due in the ordinary course of business.

At 31 March 2008, 2009 and 2010, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK\$76,682,050, HK\$97,817,404 and HK\$22,051,423 respectively.

### (d) *Capital management*

The Group’s primary objective when managing capital is to safeguard the Group’s ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost. In addition, certain subsidiaries of the Group licensed by the Securities and Futures Commission (“SFC”) are obliged to meet the regulatory liquid capital requirements under the Securities and Futures (Financial Resources) Rules (“FRR”) at all times.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and make adjustments to the capital structure in light of changes in economic conditions. For the licensed subsidiaries, the Group ensures each of them maintains a liquid capital level adequate to support the level of activities with sufficient buffer to accommodate for increases in liquidity requirements arising from potential increases in the level of business activities. During the Track Record Period, all the licensed subsidiaries complied with the liquid capital requirements under the FRR.

## 23. Operating lease commitments

The total future minimum lease payments under non-cancellable operating lease on properties are payable as follows:

|                                                | As at 31 March    |                  |                   |
|------------------------------------------------|-------------------|------------------|-------------------|
|                                                | 2008              | 2009             | 2010              |
|                                                | HK\$              | HK\$             | HK\$              |
| Within one year . . . . .                      | 8,616,588         | 4,596,588        | 8,313,198         |
| After one year but within five years . . . . . | 10,508,482        | 1,221,894        | 13,869,757        |
|                                                | <u>19,125,070</u> | <u>5,818,482</u> | <u>22,182,955</u> |

The Group leases a number of properties under operating leases. The leases run for an initial period of three years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

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### 24. Financial risk management and fair value

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group’s business. The Group’s exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

#### (a) *Credit risk*

The Group’s credit risk is primarily attributable to accounts receivable due from clients, brokers and clearing houses. Management has a credit policy in place and the exposure to the credit risk is monitored on an on-going basis.

In respect of accounts receivable due from clients, individual credit evaluations are performed on all clients including cash and margin clients. Cash clients are required to place deposits as prescribed by the Group’s credit policy before execution of any purchase transactions. Receivables due from cash clients are due within the settlement period commonly adopted by the relevant market convention, which is usually within a few days from the trade date. Because of the prescribed deposit requirements and the short settlement period involved, credit risk arising from the accounts receivable due from cash clients is considered small. The Group normally obtains liquid securities and/or cash deposits as collateral for providing margin financing to its clients. Margin loans due from margin clients are repayable on demand. For commodities and futures broking, initial margin is required before opening of a trading position. Market conditions and adequacy of securities collateral and margin deposits of each margin account and futures account are monitored by management on a daily basis. Margin calls and forced liquidation are made where necessary.

In respect of accounts receivable from brokers and clearing houses, credit risks are considered low as the Group normally enters into transactions with brokers and clearing houses which are registered with regulatory bodies and with sound reputation in the industry.

The Group has no significant concentration of credit risk as credits are granted to a large population of clients.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the balance sheet. The Group does not provide any other guarantees which would expose the Group to credit risk.

#### (b) *Liquidity risk*

Individual operating entities within the Group are responsible for their own cash management, including the raising of loans to cover expected cash demands, and to ensure compliance with FRR. The Group’s policy is to regularly monitor its liquidity requirement and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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The Group’s policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and funding in the short and longer term. All of the Group’s liabilities are expected to be settled within one year. Except for the amount due to a related company and bank loans, the carrying amounts of all financial liabilities equal to the contractual undiscounted cash outflow. The contractual undiscounted cash outflow of the amount due to a related company as at 31 March 2008 and 2009 amounted to HK\$83,600,000 and HK\$30,147,600, respectively. The contractual undiscounted cash outflow of bank loan as at 31 March 2010 amounted to HK\$441,056,007.

### (c) *Interest rate risk*

#### (i) *Interest rate profile*

The Group charged interest on its margin clients on the basis of its cost of funding plus a mark-up. Financial assets such as margin loans and deposit with banks are primarily at floating rates. Financial liabilities such as amount due to a related company and bank loans are primarily at fixed rates. The Group’s income and operating cash flows are not subject to significant interest rate risk.

The interest rate profile of the Group at the balance sheet date is as follows:

|                                                 | 31 March 2008              |                    | 31 March 2009              |                    | 31 March 2010              |                    |
|-------------------------------------------------|----------------------------|--------------------|----------------------------|--------------------|----------------------------|--------------------|
|                                                 | Effective<br>interest rate | HK\$               | Effective<br>interest rate | HK\$               | Effective<br>interest rate | HK\$               |
| <b>Assets</b>                                   |                            |                    |                            |                    |                            |                    |
| Deposits with banks                             | 0.25–1.35%                 | 159,151,348        | 0.01–0.03%                 | 116,683,514        | 0.001–0.55%                | 63,572,823         |
| Margin loans . . . . .                          | 5.50%                      | 152,477,901        | 3.68%                      | 132,709,428        | 4.28%                      | 608,568,325        |
|                                                 |                            | <u>311,629,249</u> |                            | <u>249,392,942</u> |                            | <u>672,141,148</u> |
| <b>Liabilities</b>                              |                            |                    |                            |                    |                            |                    |
| Amount due to<br>a related<br>company . . . . . | 4.50%                      | 80,000,000         | 3.60%                      | 29,100,000         | N/A                        | —                  |
| Bank loans . . . . .                            | N/A                        | <u>—</u>           | N/A                        | <u>—</u>           | 1.05%                      | <u>441,000,000</u> |
|                                                 |                            | <u>80,000,000</u>  |                            | <u>29,100,000</u>  |                            | <u>441,000,000</u> |

#### (ii) *Sensitivity analysis*

As at 31 March 2008, if interest rates had been 100 basis points higher/lower with all other variables held constant, the Group’s profit before taxation would have increased/decreased by approximately HK\$2,300,000.

As at 31 March 2009 and 31 March 2010, if interest rates had been 100 basis points higher with all other variables held constant, the Group’s profit before taxation would have increased by approximately HK\$2,200,000 and HK\$2,300,000 respectively.

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As at 31 March 2009, if interest rates had been 10 basis points lower with all other variables held constant, the Group’s profit before taxation would have decreased by approximately HK\$220,000. As at 31 March 2010, if interest rates had been 1 basis point lower with all other variables held constant, the Group’s profit before taxation would have decreased by approximately HK\$23,000.

The increased/decreased profit before taxation result mainly from higher/lower interest income from deposits with banks and margin loans and higher/lower interest expense on bank loans. Other components of equity would not be affected by the changes in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group’s profit before taxation for the Track Record Period that would arise assuming that the change in interest rates had occurred at the balance sheet dates and had been applied to re-measure those financial instruments held by the Group which expose the Group to interest rate risk at the balance sheet dates.

### (d) *Foreign currency risk*

The Group’s business is principally conducted in HKD and United States dollars (“USD”) and most of the Group’s monetary assets and liabilities are denominated in HKD. As the HKD is pegged to the USD, the Group considers the risk of movements in exchange rates between the HKD and the USD to be insignificant. Accordingly, the directors consider the Group’s exposure to foreign currency risk is minimal.

### (e) *Fair values*

All financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 March 2008, 2009 and 2010.

## 25. Material related party transactions

In addition to the related party information disclosed elsewhere in the Financial Information, the Group entered into the following material related party transactions.

### (a) *Key management personnel remuneration*

Remuneration for key management personnel of the Group, including amounts paid to the Company’s directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

|                                             | Year ended 31 March |                  |                  |
|---------------------------------------------|---------------------|------------------|------------------|
|                                             | 2008                | 2009             | 2010             |
|                                             | HK\$                | HK\$             | HK\$             |
| Salaries, allowances and benefits in kind . | 2,421,147           | 3,175,732        | 5,980,857        |
| Discretionary bonuses . . . . .             | 2,233,107           | 1,877,972        | 3,799,555        |
| Contributions to Mandatory Provident Fund   | 71,000              | 75,000           | 95,000           |
|                                             | <u>4,725,254</u>    | <u>5,128,704</u> | <u>9,875,412</u> |

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Total remuneration is included in “staff costs” (see note 5(b)).

### (b) *Balances with related parties*

As at the balance sheet dates, the Group had the following balances with related parties included in accounts receivable and accounts payable representing trades executed pending settlement which were arising from the Group’s ordinary course of business in securities broking, margin financing and commodities and futures broking:

|                                                                  | Year ended 31 March |                   |            |
|------------------------------------------------------------------|---------------------|-------------------|------------|
|                                                                  | 2008                | 2009              | 2010       |
|                                                                  | HK\$                | HK\$              | HK\$       |
| (i) Accounts receivable from                                     |                     |                   |            |
| — Directors and their close family members . . . . .             | —                   | 17,244,930        | 997        |
| — Related companies owned by a director of the Company . . . . . | —                   | 1,180,803         | —          |
|                                                                  | <u>—</u>            | <u>18,425,733</u> | <u>997</u> |

Accounts receivable from related parties are set at same terms as those normally offered to third party clients.

|                                                        | Year ended 31 March |                  |                  |
|--------------------------------------------------------|---------------------|------------------|------------------|
|                                                        | 2008                | 2009             | 2010             |
|                                                        | HK\$                | HK\$             | HK\$             |
| (ii) Accounts payable to                               |                     |                  |                  |
| — Directors and their close family members             | 13,035,003          | 6,584,610        | 1,443,096        |
| — Related companies owned by a director of the Company | 10,731,075          | —                | 67,440           |
|                                                        | <u>23,766,078</u>   | <u>6,584,610</u> | <u>1,510,536</u> |

Accounts payable from related parties are set at same terms as those normally offered to third party clients.

(iii) As at 31 March 2008, 2009 and 2010, included in the other receivables, deposits and prepayments were rental and office management deposits of HK\$2,433,636, HK\$1,437,411 and HK\$1,949,089 respectively which had been made to related companies owned by a director of the Company. These amounts were unsecured, interest-free and repayable upon expiry of the respective leases.

(iv) As at 31 March 2008 and 2009, the amount due to a related company owned by a director of the Company, Perfection Corporation Limited (formerly known as Bright Smart Finance International (H.K.) Limited), was unsecured, repayable on demand and bore interest at 4.5% and 3.6% per annum respectively. Such facility amounted to HK\$200,000,000 as at 31 March 2008 and 31 March 2009 and was utilised to the extent of HK\$80,000,000 and HK\$29,100,000 respectively as at 31 March 2008 and 31

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March 2009. The interest paid during the years ended 31 March 2008 and 2009 in respect of the balances was HK\$5,113,918 and HK\$2,696,445 respectively. During the year ended 31 March 2010, the amounts due to related companies owned by a director of the Company, Perfection Corporation Limited (formerly known as Bright Smart Finance International (H.K.) Limited) and China Finance (Worldwide) Limited, were repaid. As at 31 March 2010, there was no balance due to the related companies. The interest paid during the year ended 31 March 2010 amounted to HK\$971,054.

### (c) *Other transactions with related parties*

|     |                                     | Year ended 31 March |                  |                |
|-----|-------------------------------------|---------------------|------------------|----------------|
|     |                                     | 2008                | 2009             | 2010           |
|     |                                     | HK\$                | HK\$             | HK\$           |
| (i) | Brokerage income received from      |                     |                  |                |
|     | — Directors and their close         |                     |                  |                |
|     | family members . . . . .            | 793,784             | 1,116,083        | 809,570        |
|     | — Related companies owned by        |                     |                  |                |
|     | a director of the Company . . . . . | 438,679             | 190,175          | 126,498        |
|     |                                     | <u>1,232,463</u>    | <u>1,306,258</u> | <u>936,068</u> |

Brokerage income was received from the directors of the Company, their close family members and related companies owned by a director of the Company in the ordinary course of the Group’s business of securities broking and commodities and futures broking. Commission rates are set at the same level as those normally offered to third party clients.

|      |                                       | Year ended 31 March |                |                |
|------|---------------------------------------|---------------------|----------------|----------------|
|      |                                       | 2008                | 2009           | 2010           |
|      |                                       | HK\$                | HK\$           | HK\$           |
| (ii) | Interest income from margin financing |                     |                |                |
|      | — Directors and their close           |                     |                |                |
|      | family members . . . . .              | 2,549               | 336,960        | 83,241         |
|      | — Related companies owned by          |                     |                |                |
|      | a director of the Company . . . . .   | 151,730             | 151,903        | 12,172         |
|      |                                       | <u>154,279</u>      | <u>488,863</u> | <u>95,413</u>  |
|      | Interest income from IPO financing    |                     |                |                |
|      | — Directors and their close           |                     |                |                |
|      | family members . . . . .              | 145,871             | 6,346          | 282,784        |
|      | — Related companies owned by          |                     |                |                |
|      | a director of the Company . . . . .   | 554,028             | 18,525         | 96,761         |
|      |                                       | <u>699,899</u>      | <u>24,871</u>  | <u>379,545</u> |
|      |                                       | <u>854,178</u>      | <u>513,734</u> | <u>474,958</u> |

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Interest income from margin financing and IPO financing was received from the directors of the Company, their close family members and the related companies owned by a director of the Company in the ordinary course of the Group’s business of margin and IPO financing. Interest rates are set at the same level as those normally offered to third party clients.

|       |                                                                                                   | Year ended 31 March |                |                |
|-------|---------------------------------------------------------------------------------------------------|---------------------|----------------|----------------|
|       |                                                                                                   | 2008                | 2009           | 2010           |
|       |                                                                                                   | HK\$                | HK\$           | HK\$           |
| (iii) | Management fee received from<br>a related company owned by<br>a director of the Company . . . . . | <u>60,000</u>       | <u>300,000</u> | <u>350,000</u> |

Management fee received from a related company owned by a director of the Company, Perfection Corporation Limited (formerly known as Bright Smart Finance International (H.K.) Limited), for the provision of management and administrative services was charged at a rate mutually agreed between the parties involved.

|      |                                                                                             | Year ended 31 March |          |          |
|------|---------------------------------------------------------------------------------------------|---------------------|----------|----------|
|      |                                                                                             | 2008                | 2009     | 2010     |
|      |                                                                                             | HK\$                | HK\$     | HK\$     |
| (iv) | Management fee paid to<br>a related company owned by<br>a director of the Company . . . . . | <u>1,200,000</u>    | <u>—</u> | <u>—</u> |

Management fee paid to a related company owned by a director of the Company, Perfection Corporation Limited (formerly known as Bright Smart Finance International (H.K.) Limited), for the provision of management and administrative services was charged at a rate mutually agreed between the parties involved.

|     |                                                                                              | Year ended 31 March |                  |                  |
|-----|----------------------------------------------------------------------------------------------|---------------------|------------------|------------------|
|     |                                                                                              | 2008                | 2009             | 2010             |
|     |                                                                                              | HK\$                | HK\$             | HK\$             |
| (v) | Rental expenses paid to<br>related companies owned by<br>a director of the Company . . . . . | <u>5,527,100</u>    | <u>7,379,206</u> | <u>4,697,881</u> |

Rental expenses paid to related companies owned by a director of the Company, Victory Beauty Limited, Great Challenge Limited and Well Point Limited were charged at a rate mutually agreed between the parties involved with reference to market rates.

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- (vi) The total future minimum lease payment under non-cancellable operating lease on properties are payable to related companies owned by a director of the Company, Victory Beauty Limited, Great Challenge Limited and Well Point Limited, as follows:

|                                          | Year ended 31 March |                  |                  |
|------------------------------------------|---------------------|------------------|------------------|
|                                          | 2008                | 2009             | 2010             |
|                                          | HK\$                | HK\$             | HK\$             |
| Within one year . . . . .                | 8,354,832           | 4,334,832        | 3,035,600        |
| After one year but within five years . . | 10,072,222          | 1,047,390        | 3,680,000        |
|                                          | <u>18,427,054</u>   | <u>5,382,222</u> | <u>6,715,600</u> |

- (vii) During the Track Record Period, Bright Smart Securities International (H.K.) Limited had sub-ordinated loan facilities approved by the Securities and Futures Commission from a related company owned by a director of the Company, Manet Good Company Limited. The facilities were unsecured, interest-free and repayable on demand. As at 31 March 2008, 2009 and 2010, Bright Smart Securities International (H.K.) Limited did not have any drawdown under the facility.
- (viii) During the Track Record Period, Yip Mow Lum, a director of the Company, provided unlimited personal guarantee for certain banking facilities of the Group. The aggregate amount of these banking facilities was HK\$266,000,000, HK\$166,000,000 and HK\$366,000,000 as at 31 March 2008, 2009 and 2010 respectively. As at 31 March 2008, 2009 and 2010, the drawdown under these facilities amounted to Nil, Nil and HK\$143,000,000 respectively. On 9 April 2010, this personal guarantee was discharged.
- (ix) During the Track Record Period, Royalux Limited and Guidance Fast Limited (formerly known as Bright Smart Group Limited), two related companies owned by a director of the Company, signed certain service contracts on behalf of the Group with external service providers, which provided administrative services to the Group. The sole activity of these companies is to enter into such service contracts on behalf of the Group. Such contracts were terminated/transferred to the Group after 31 March 2010.
- (x) On 25 November 2009, Yip Mow Lum, a director of the Company, and BOCOM International Holdings Company Limited entered into a call option agreement, whereby Yip Mow Lum granted an option to BOCOM International Holdings Company Limited, representing the right to require Yip Mow Lum to sell a certain number of the total issued shares of the Company to BOCOM International Holdings Company Limited. Further details of the call option arrangement are set out in the section headed “Strategic Investments From BOCOM International Holdings” in “History, Reorganisation and Group Structure” to the Document.

### 26. Financial information of the Company

The Company was incorporated in the Cayman Islands on 4 August 2009. The issued capital as at the date of incorporation was US\$1 which was issued at par. The Company has not carried on any business since its date of incorporation.

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## ACCOUNTANTS’ REPORT

### 27. Immediate and ultimate holding company

The directors consider the immediate parent and ultimate holding company of the Company as at 31 March 2010 to be New Charming Holdings Limited which was incorporated on 6 July 2009 in the British Virgin Islands and does not produce financial statements available for public use.

### 28. Possible impact of amendments, new standards and interpretations issued but not yet effective for the Track Record Period

Up to the date of issue of the Financial Information, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective during the Track Record Period and which have not been adopted in the Financial Information.

|                                                                                                      | <u>Effective for<br/>accounting periods<br/>beginning on or after</u> |
|------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|
| HKFRS 3 (revised), <i>Business combinations</i> . . . . .                                            | 1 July 2009                                                           |
| Amendments to HKAS 27, <i>Consolidated and separate financial statements</i> . . . . .               | 1 July 2009                                                           |
| Amendments to HKAS 39, <i>Financial instruments:</i><br><i>Recognition and measurement</i> . . . . . | 1 July 2009                                                           |
| HK(IFRIC) 17, <i>Distributions of non-cash assets to owners</i> . . . . .                            | 1 July 2009                                                           |
| Improvements to HKFRSs 2009 . . . . .                                                                | 1 July 2009 or<br>1 January 2010                                      |
| HKAS 24 (Revised), <i>Related party disclosures</i> . . . . .                                        | 1 January 2011                                                        |
| HKFRS 9, <i>Financial instruments</i> . . . . .                                                      | 1 January 2013                                                        |

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group’s results of operations and financial position.

### D. SUBSEQUENT EVENTS

The following significant events took place subsequent to 31 March 2010:

#### Group reorganisation

On 2 July 2010, the Group completed the Reorganisation to rationalise the Group’s structure in preparation for the [●] of the Company’s shares on the [●]. Further details of the Reorganisation are set out in the section headed “Group reorganisation” in Appendix V to the Document. As a result of the Reorganisation, the Company became the holding company of the Group.

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**ACCOUNTANTS’ REPORT**

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**Share Option Scheme**

Pursuant to a shareholder resolution passed on 4 August 2010, the Company has conditionally adopted the Share Option Scheme. The summary of terms of the Share Option Scheme is set out in the section headed “Share Option Scheme” in Appendix V to the Document.

**E. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 March 2010.

Yours faithfully,

[●]

*Certified Public Accountants*  
Hong Kong

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## APPENDIX III

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## PROPERTY VALUATION REPORT

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*The following is the text of a letter, summary of values and valuation certificate prepared for the purpose of incorporation in this Document and received from DTZ Debenham Tie Leung Limited, an independent valuer, in connection with their valuations as at 30 June 2010 of the properties of the Group.*



16th Floor  
Jardine House  
1 Connaught Place  
Central  
Hong Kong

[●] 2010

The Directors  
Bright Smart Securities & Commodities Group Limited  
10/F, Wing On House  
71 Des Voeux Road Central  
Hong Kong

Dear Sirs,

In accordance with your instruction for us to carry out market valuations of the property interests held by Bright Smart Securities & Commodities Group Limited (the “Company”) or its subsidiaries (hereinafter referred to as “the Group”) in Hong Kong, we confirm that we have carried out inspections, made relevant requires and obtained such further information as we consider necessary for the purpose of providing the Group with our opinion of the values of those property interests as at [30 June 2010] (the “Date of Valuation”).

Our valuation of each of the property interests represents its market value which in accordance with The HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors is defined as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

In valuing the property interests, we have complied with the requirements set out in Paragraph 34(2), (3) of Schedule 3 of the Companies Ordinance (Cap. 32) and Chapter 5 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors.

Our valuations exclude estimated prices inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interests nor any expenses or taxation, which may be incurred in effecting sales. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoing of an onerous nature, which could affect their values.

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## PROPERTY VALUATION REPORT

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All the property interests are held by the Group under leases. They are considered to be no commercial value due to prohibition against assignment or lack of substantial profit rent.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, completion date of buildings, building specifications, particulars of occupancy, tenancy details, floor areas and all other relevant matters.

Dimensions, measurements and areas included in this valuation report are based on information provided to us and therefore only approximations. We have had no reason to doubt the truth and accuracy of the building provided. We were also advised by you that no material facts have been omitted from the information supplied.

We have inspected the exterior and, where possible, the interior of the properties. No structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are, however, not able to report that the properties are free of rot, infestation or any other structural defects. No test was carried out on any of the services.

We have caused searches to be made at the Land Registry in Hong Kong. However, we have not searched the original documents to verify ownership or to verify any amendments to any documents. All documents and leases have been used for reference only and all dimensions, measurements and areas are approximate.

We enclose herewith a summary of our valuations and valuation certificates.

Yours faithfully,  
For and on behalf of  
**DTZ Debenham Tie Leung Limited**

**K. B. Wong**  
*Registered Professional Surveyor*  
*M.R.I.C.S., M.H.K.I.S.*  
*Director*

*Note:* Mr. K.B. Wong is a Registered Professional Surveyor who has over 25 years' experience in valuation of properties in Hong Kong.

## APPENDIX III

## PROPERTY VALUATION REPORT

### SUMMARY OF VALUATIONS

| Property                                                                                                                   | Capital value in<br>existing state as at<br>[30 June 2010]<br>HK\$ |
|----------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|
| <b>Properties leased by the Group in Hong Kong</b>                                                                         |                                                                    |
| 1. 10th Floor,<br>Wing On House,<br>71 Des Voeux Road Central,<br>Central,<br>Hong Kong                                    | No commercial value                                                |
| 2. 11th Floor,<br>Shun Feng International Centre,<br>182 Queen’s Road East,<br>Wanchai,<br>Hong Kong                       | No commercial value                                                |
| 3. Mezzanine Floor,<br>Peter Building,<br>58–60 Queen’s Road Central and<br>13–17 Stanley Street,<br>Central,<br>Hong Kong | No commercial value                                                |
| 4. Unit C, 16th Floor,<br>Man Foong Industrial Building,<br>7 Cheung Lee Street,<br>Chai Wan,<br>Hong Kong                 | No commercial value                                                |
| 5. Units A and B, 12th Floor,<br>Hang Seng Tsuen Wan Building,<br>289 Sha Tsui Road,<br>Tsuen Wan,<br>New Territories      | No commercial value                                                |
| 6. Shop 5 on Ground Floor,<br>Block B,<br>18–36 Fook Tak Street and 22 Tung Lok Street,<br>Yuen Long,<br>New Territories   | No commercial value                                                |

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## PROPERTY VALUATION REPORT

| Property                                                                                                                                                                                                          | Capital value in<br>existing state as at<br>[30 June 2010]<br>HK\$ |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|
| 7. Shop Nos. 541 and 541A on Ground Floor,<br>Bell House,<br>525, 525A, 527, 529, 531, 533, 535,<br>537, 539, 541, 543 and 543A Nathan Road,<br>Yaumatei,<br>Kowloon                                              | No commercial value                                                |
| 8. Units 1 and 2 on 12th Floor,<br>Soundwill Plaza,<br>38 Russell Street,<br>Causeway Bay,<br>Hong Kong                                                                                                           | No commercial value                                                |
| 9. Ground Floor and Cockloft,<br>141–145 Kwong Fuk Road,<br>Tai Po,<br>New Territories                                                                                                                            | No commercial value                                                |
| 10. Shop A on Ground Floor and Portion of the Yard,<br>66–72 Tai Wai Road,<br>Shatin,<br>New Territories                                                                                                          | No commercial value                                                |
| 11. Shop 18 on Ground Floor,<br>Cambridge Building, 25-39 Hong Ning Road,<br>16–32 Yee On Street and 10 Tung Ming Street and<br>Cockloft No. 2 of Cambridge Building,<br>41 Hong Ning Road, Kwun Tong,<br>Kowloon | No commercial value                                                |
| 12. Basement, Ground Floor and Cockloft,<br>39 Yen Chow Street,<br>Shamshuipo,<br>Kowloon                                                                                                                         | No commercial value                                                |
| 13. Office Nos. 2007–2010 on Level 20,<br>Landmark North,<br>39 Lung Sum Avenue,<br>Sheung Shui,<br>New Territories                                                                                               | No commercial value                                                |

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## PROPERTY VALUATION REPORT

### VALUATION CERTIFICATE

|    | <b>Property</b>                                                                                                            | <b>Description and tenancy particulars</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | <b>Capital value in existing state as at [30 June 2010]</b> |
|----|----------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|
| 1. | 10th Floor,<br>Wing On House,<br>71 Des Voeux Road<br>Central,<br>Central,<br>Hong Kong                                    | <p>The property comprises the whole office floor on the 10th floor of 32-storey (including a basement) commercial building completed in 1967.</p> <p>The property has a gross floor area of approximately [15,946] sq.ft. ([1,481.42] sq.m.) and is currently occupied by the Group as [an office].</p> <p>The property is leased from Victory Beauty Limited to the Group for a term from 9 June 2010 to 31 March 2013 with an option to renew for a further term of 3 years at a monthly rent of HK\$670,000, exclusive of rates, Government rent, management fees and other outgoings.</p>                                                                                          | No commercial value                                         |
| 2. | 11th Floor,<br>Shun Feng International<br>Centre,<br>182 Queen’s Road East,<br>Wanchai,<br>Hong Kong                       | <p>The property comprises the whole office floor on the 11th floor of a [25]-storey commercial building completed in 1994.</p> <p>The property has a gross floor area of approximately [2,228] sq.ft. ([206.99] sq.m.) and is currently occupied by the Group as an [office].</p> <p>The property is leased from Great Challenge Limited to the Group for a term from 1 June 2010 to 31 March 2013 with an option to renew for a further term of 3 years at a monthly rent of HK\$42,000, exclusive of rates, Government rent management fees and other outgoings.</p>                                                                                                                 | No commercial value                                         |
| 3. | Mezzanine Floor,<br>Peter Building,<br>58–60 Queen’s Road<br>Central and<br>13–17 Stanley Street,<br>Central,<br>Hong Kong | <p>The property comprises the whole mezzanine floor of a 13-storey (including basement, ground floor and mezzanine floor) commercial building completed in 1967.</p> <p>The property has a saleable area of approximately [2,914] sq.ft. ([270.72] sq.m.) and is currently occupied by the Group as a [shop].</p> <p>The property is currently leased from Well Point Limited to the Group for a term of 3 years from 1 March 2010 to 28 February 2013 with an option to renew for a further term of 3 years (with a rent free period of 45 days from 1 March 2010 to 14 April 2010) at a monthly rent of HK\$160,000, exclusive of rates and management fees and other outgoings.</p> | No commercial value                                         |

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|    | <b>Property</b>                                                                                                       | <b>Description and tenancy particulars</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | <b>Capital value in existing state as at [30 June 2010]</b> |
|----|-----------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|
| 4. | Unit C, 16th Floor,<br>Man Foong Industrial Building,<br>7 Cheung Lee Street,<br>Chai Wan,<br>Hong Kong               | <p>The property comprises an industrial unit on the 16th floor of a [25]-storey industrial building completed in 1977.</p> <p>The property has a gross floor area of approximately 3,160 sq.ft. (293.57 sq.m.) and is currently occupied by the Group as a [warehouse].</p> <p>The property is currently leased from Wing Shing Cassette Manufactory Limited to the Group for a term of 2 years from 1 April 2010 to 31 March 2012 with an option to renew for a further term of 3 years at a monthly rent of HK\$22,120, inclusive of Government rent, rates, management fees and other outgoings.</p>                                                                                                                                                                                                                                  | No commercial value                                         |
| 5. | Units A and B,<br>12th Floor,<br>Hang Seng Tsuen Wan Building,<br>289 Sha Tsui Road,<br>Tsuen Wan,<br>New Territories | <p>The property comprises two office units on the 12th floor of a [23]-storey plus a basement commercial building completed in 1998.</p> <p>The property has a total saleable area of approximately [1,241] sq.ft. ([115.29] sq.m.) and is currently occupied by the Group as an [office].</p> <p>The property is currently leased from High Time Investments Limited to the Group for a term of 3 years from 16 November 2009 to 15 November 2012 (with a rent free period from 16 November 2009 to 15 January 2010) at a monthly rent of HK\$20,000, exclusive of rates, air-conditioning charges/building management fees.</p>                                                                                                                                                                                                        | No commercial value                                         |
| 6. | Shop 5 on Ground Floor, Block B,<br>18–36 Fook Tak Street and 22 Tung Lok Street,<br>Yuen Long,<br>New Territories.   | <p>The property comprises a shop unit on the ground floor of a 6-storey composite building completed in [1963].</p> <p>The property has a saleable area of approximately 972 sq.ft. (90.30 sq.m.) and a yard area of 152 sq.ft. (14.12 sq.m.) and is currently occupied by the Group as a [shop].</p> <p>The property is currently leased from Owaka Limited to the Group for a term of 3 years from 19 April 2010 to 18 April 2013 with an option to renew for a further term of 2 years (with a rent free period from 19 April 2010 to 2 June 2010) at a monthly rent of HK\$47,000 from 3 June 2010 to 2 July 2010, HK\$43,967.8 from 3 July 2010 to 31 July 2010, HK\$47,000 from 1 August 2010 to 31 March 2013 and HK\$28,200 from 1 April 2013 to 18 April 2013, exclusive of Government rent, rates and all other outgoings.</p> | No commercial value                                         |

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## PROPERTY VALUATION REPORT

|                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |  | Capital value in<br>existing state as at<br>[30 June 2010] |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|------------------------------------------------------------|
| Property                                                                                                                                               | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |  |                                                            |
| 7. Shops Nos. 541 and 541A on Ground Floor, Bell House, 525, 525A, 527, 529, 531, 533, 535, 537, 539, 541, 543 and 543A Nathan Road, Yaumatei, Kowloon | <p>The property comprises two shop units on the ground floor of a 4-storey commercial podium upon which three residential towers are erected. The development was completed in 1969.</p> <p>The property has a total saleable area of approximately 1,072 sq.ft. (99.59 sq.m.) and is currently occupied by the Group as a [shop].</p> <p>The property is leased to the Group for a term of 3 years from 1 April 2010 to 31 March 2013 with an option to renew for a further term of 2 years (with a rent free period from 1 April 2010 to 15 May 2010) at a monthly rent of HK\$145,000, exclusive of rates, management fee and other outgoings.</p>                                                                   |  | No commercial value                                        |
| 8. Units 1 and 2 on 12th Floor, Soundwill Plaza, 38 Russell Street, Causeway Bay, Hong Kong                                                            | <p>The property comprises two office units on the 12th floor of a 28-storey office building completed in 1996.</p> <p>The property has a total floor area of approximately 3,051 sq.ft. (283.44 sq.m.) and is currently occupied by the Group as an [office].</p> <p>The property is currently leased from Golden Relay Company Limited to the Group for a term of 3 years from 15 April 2010 to 14 April 2013 with an option to renew for a further term of 3 years (with a rent free period from 15 April 2010 to 14 May 2010) at a monthly rent of 106,785, exclusive of management and air-conditioning charges and rates and other outgoings.</p>                                                                  |  | No commercial value                                        |
| 9. Ground Floor and Cockloft, 141–145 Kwong Fuk Road, Tai Po, New Territories                                                                          | <p>The property comprises a shop unit on the ground floor plus a cockloft of a 7-storey (including cockloft) tenement building completed in 1979.</p> <p>The property has a saleable area of approximately 2,170 sq.ft. (201.6 sq.m.) and the cockloft area is approximately 1,871 sq.ft. (173.82 sq.m.) and is currently occupied by the Group as a [shop].</p> <p>The property is currently leased from Sea Magic Limited to the Group for a term from 15 April 2010 to 31 March 2013 with an option to renew for a further term of 3 years (with a rent free period from 15 April 2010 to 14 May 2010) at a monthly rent of HK\$90,000, exclusive of rates, management fee, Government rent and other outgoings.</p> |  | No commercial value                                        |

## APPENDIX III

## PROPERTY VALUATION REPORT

|                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |  | Capital value in<br>existing state as at<br>[30 June 2010] |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|------------------------------------------------------------|
| Property                                                                                                                                                                                       | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |  |                                                            |
| 10. Shop A on Ground Floor and Portion of the Yard, 66–72 Tai Wai Road, Shatin, New Territories                                                                                                | <p>The property comprises a shop unit on the ground floor of a 6-storey composite building completed in 1974.</p> <p>The property has a saleable area of approximately 643 sq.ft. (59.74 sq.m.) and the yard area is approximately 165 sq.ft. (15.33 sq.m.) and is currently occupied by the Group as a [shop].</p> <p>The property is currently leased from Gold Ocean Investments Limited to the Group for a term of 3 years from 1 April 2010 to 31 March 2013 with an option to renew for a further term of 2 years (with a rent free period from 1 April 2010 to 30 April 2010) at a monthly rent of HK\$113,000, exclusive of rates, management charges and Government rent.</p>                                                                                                                                               |  | No commercial value                                        |
| 11. Shop 18 on Ground Floor, Cambridge Building, 25–39 Hong Ning Road, 16–32 Yee On Street and 10 Tung Ming Street and Cockloft 2 of Cambridge Building, 41 Hong Ning Road, Kwun Tong, Kowloon | <p>The property comprises a shop unit on the ground floor and a cockloft of a 22-storey plus a cockloft composite building completed in 1966.</p> <p>The property has a saleable area of approximately [1,335 sq.ft. (124.02 sq.m.) and the cockloft area is approximately 1,210 sq.ft. (112.41 sq.m.) ] and is currently occupied by the Group as a [shop].</p> <p>The property is currently leased from Wella Knitting Factory Limited to the Group for a term of 3 years from 1 June 2010 to 31 May 2013 with an option granted for a further term of 3 years (with 3 rent free periods from 1 June 2010 to 31 July 2010, 1 November 2011 to 31 December 2011 and 1 May 2013 to 31 May 2013 respectively) at a monthly rent of HK\$92,000, exclusive of rates, management fees, Government rent and other relevant outgoings.</p> |  | No commercial value                                        |
| 12. Basement, Ground Floor and Cockloft, 39 Yen Chow Street, Shamshuipo, Kowloon                                                                                                               | <p>The property comprises the shop space on the basement, ground floor and cockloft of a [6]-storey plus a cockloft composite building completed in [1983].</p> <p>The property has a total gross floor area of approximately [2,800 sq.ft. (260.13 sq.m.) ] and is currently occupied by the Group as a [shop].</p> <p>The property is currently leased from Lee Tung Ming Enterprises Limited to the Group for a term of 3 years from 1 May 2010 to 30 April 2013 with an option to renew for a further term of 2 years (with a rent free period from 1 November 2010 to 30 November 2010) at a monthly rent of HK\$62,000, exclusive of rates and Government rent.</p>                                                                                                                                                            |  | No commercial value                                        |

## APPENDIX III

## PROPERTY VALUATION REPORT

|                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |  | Capital value in<br>existing state as at<br>[30 June 2010] |
|---------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|------------------------------------------------------------|
| Property                                                                                                | Description and tenancy particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |  |                                                            |
| 13. Office Nos. 2007–2010 on Level 20, Landmark North, 39 Lung Sum Avenue, Sheung Shui, New Territories | <p>The property comprises a total of four office units on the 20th floor of a [24]-storey (including 3 basements) office building completed in 1995.</p> <p>The property has a total gross floor area of approximately [4,056 sq.ft. (376.81 sq.m.) ] and is currently occupied by the Group as an [office].</p> <p>[The property is currently leased from Sun Hung Kai Real Estate Agency Limited to the Group for a term of 3 years from 21 June 2010 to 20 June 2013 with an option to renew for a further term of 3 years (with a rent free period from 21 June 2010 to 20 August 2010) at a monthly rent of HK\$64,896, exclusive of air-conditioning and management charges and rates.]</p> |  | No commercial value                                        |

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## APPENDIX IV

## SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN COMPANY LAW

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Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 4 August 2009 under the Cayman Companies Law. The Company’s constitutional documents consist of its Amended and Restated Memorandum of Association (the “Memorandum”) and the Amended and Restated Articles of Association (the “Articles”).

### 1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum provides, inter alia, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and since the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified therein.

### 2. ARTICLES OF ASSOCIATION

The Articles were adopted on [4 August] 2010. 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) *Share certificates*

Every person whose name is entered as a member in the register of members shall be entitled without payment to receive a certificate for his shares. The Cayman Companies Law prohibits the issue of bearer shares to any person other than an authorised or recognised custodian defined in the Cayman Companies Law. The requirement on all service providers to implement appropriate due diligence procedures on the identity of a client in order to “know your client” as a result of proceeds of crime legislation mandates that special procedures should be followed when issuing bearer shares.

Every certificate for shares, warrants or debentures or representing any other form of securities of the Company shall be issued under the seal of the Company, and shall be signed autographically by one Director and the Secretary, or by 2 Directors, or by some other person(s) appointed by the Board for the purpose. As regards any certificates for shares or

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## SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN COMPANY LAW

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debentures or other securities of the Company, the Board may by resolution determine that such signatures or either of them shall be dispensed with or affixed by some method or system of mechanical signature other than autographic as specified in such resolution or that such certificates need not be signed by any person. Every share certificate issued shall specify the number and class of shares in respect of which it is issued and the amount paid thereon and may otherwise be in such form as the Board may from time to time prescribe. A share certificate shall relate to only one class of shares, and where the capital of the Company includes shares with different voting rights, the designation of each class of shares, other than those which carry the general right to vote at general meetings, must include the words “restricted voting” or “limited voting” or “non-voting” or some other appropriate designation which is commensurate with the rights attaching to the relevant class of shares. The Company shall not be bound to register more than 4 persons as joint holders of any share.

### **(b) Directors**

#### *(i) Power to allot and issue shares and warrants*

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that upon the happening of a specified event or upon a given date and either at the option of the Company or the holder thereof, they are liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate thereof shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate thereof has been destroyed and the Company has received an indemnity in such form as the Board shall think fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) 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 shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any

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## SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN COMPANY LAW

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particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iii) *Compensation or payments for loss of office*

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors and their associates which are equivalent to provisions of Hong Kong law prevailing at the time of adoption of the Articles.

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective associates, or if any one or more of the Directors hold (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(v) *Disclosure of interest in contracts with the Company or with any of its subsidiaries*

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and, upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or

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## SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN COMPANY LAW

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member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, either as vendor, purchaser or otherwise, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any Share by reason that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the Company.

A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he or his associate(s) is/are materially interested, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters namely:

- (aa) the giving of any security or indemnity to the Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) 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 associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any proposal 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 associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any proposal concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a member or in which the Director or his associate(s) is/are beneficially interested in shares of that company, provided that the Director and

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any of his associates are not in aggregate beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest or that of his associate(s) is derived) or of the voting rights;

- (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 associate(s) and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not generally accorded to the employees to which such scheme or fund relates; or
- (ff) any contract or arrangement in which the Director or his 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.

### (vi) *Remuneration*

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree or failing agreement, equally, except that in such event any Director holding office for only a portion 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 has held office. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration (whether by way of salary, commission, participation in profits or otherwise) 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 (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with other companies (being subsidiaries of the Company or with which the Company is associated in business), or may make contributions out of the Company's monies to, such

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schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

In addition, the Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

*(vii) Appointment, retirement and removal*

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election. There is no shareholding qualification for Directors.

At each annual general meeting, one third of the Directors for the time being will retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office. The period for lodgment of such notices will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting and the minimum length of the period during which such notices to the Company may be given must be at least 7 days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to the Board or retirement therefrom.

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A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two.

In addition to the foregoing, the office of a Director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office or head office of the Company for the time being or tendered at a meeting of the Board;
- (bb) if he dies or becomes of unsound mind as determined pursuant to an order made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;
- (cc) if, 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) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles;
- (gg) if he has been validly required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director and the relevant time period for application for review of or appeal against such requirement has lapsed and no application for review or appeal has been filed or is underway against such requirement; or
- (hh) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) then in office.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director or Directors and other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees

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either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(viii) *Borrowing powers*

Pursuant to the Articles, the Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The provisions summarized above, in common with the Articles of Association in general, may be varied with the sanction of a special resolution of the Company.

(ix) *Register of Directors and officers*

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors 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 30 days of any change in such directors or officers.

(x) *Proceedings of the Board*

Subject to the Articles, the Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

**(c) Alterations to the constitutional documents**

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed by the Company by special resolution.

**(d) Variation of rights of existing shares or classes of shares**

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings shall *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or in the case of a shareholder being a corporation, by its duly authorised representative) or representing by proxy not less than one-third

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## SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN COMPANY LAW

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in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

### **(e) Alteration of capital**

The Company may, by an ordinary resolution of its members, (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; and (e) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorised and subject to any conditions prescribed by law.

Reduction of share capital – subject to the Companies Law and to confirmation by the court, a company limited by shares may, if so authorised by its Articles of Association, by special resolution, reduce its share capital in any way.

### **(f) Special resolution - majority required**

In accordance with the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days’ notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days’ notice has been given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An “ordinary resolution”, by contrast, is 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 members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than

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## SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN COMPANY LAW

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fourteen clear days’ notice has been given and held in accordance with the Articles. A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

**(g) Voting rights (generally and on a poll) and right to demand a poll**

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote, and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purpose as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded or otherwise required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles). A poll may be demanded by:

- (i) the chairman of the meeting; or
- (ii) at least two members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s), be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of

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shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s), as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, 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 member in contravention of such requirement or restriction shall not be counted.

### **(h) Annual general meetings**

The Company must hold an annual general meeting each year. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

### **(i) Accounts and audit**

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account or book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to shareholders who has, in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles), consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory (as

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defined in the Articles), and must be sent to the shareholders not less than twenty-one days before the general meeting to those shareholders that have consented and elected to receive the summarized financial statements.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

### **(j) Notices of meetings and business to be conducted thereat**

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must be called by at least 21 days' notice in writing, and any other extraordinary general meeting shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting, and particulars of the resolution(s) to be considered at that meeting, and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member either personally or by sending it through the post in a prepaid envelope or wrapper addressed to such member at his registered address as appearing in the Company's register of members or by leaving it at such registered address as aforesaid or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which for the purpose of service of notice shall be deemed to be his registered address. Where the registered address of the member is outside Hong Kong, notice, if given through the post, shall be sent by prepaid airmail letter where available.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the issued shares giving that right.

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All business transacted at an extraordinary general meeting shall be deemed special business and all business shall also be deemed special business where it is transacted at an annual general meeting with the exception of the following, which shall be deemed 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;
- (ee) the fixing of the remuneration of the Directors and of the auditors;
- (ff) the granting of any mandate or authority to the Board to offer, allot, grant options over, or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its existing issued share capital (or such other percentage as may from time to time be specified in the rules of the Stock Exchange) and the number of any securities repurchased by the Company since the granting of such mandate; and
- (gg) the granting of any mandate or authority to the Board to repurchase securities in the Company.

### **(k) Transfer of shares**

Subject to the Cayman Companies Law, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve provided always that it shall be in such form prescribed by the Stock Exchange and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers in any case in which it in its discretion thinks fit to do so, and 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 of the Company in respect thereof.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

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Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share option scheme upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The Board may decline to recognize any instrument of transfer unless a fee of such maximum sum as the Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require 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 a newspaper circulating generally in Hong Kong or, where applicable, any other newspapers 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 shall not be closed for periods exceeding in the whole 30 days in any year.

Fully paid shares shall be free from any restriction with respect to the right of the holder thereof to transfer such shares (except when permitted by the Stock Exchange) and shall also be free from all liens.

### **(l) Power of the Company to purchase its own shares**

The Company is empowered by the Cayman 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 requirement imposed from time to time by code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price, and if purchases are by tender, tenders shall be available to all members alike.

### **(m) Power of any subsidiary of the Company to own shares in the Company**

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

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### **(n) Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share; and
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared on the share capital of the Company, the Board may resolve:

- (aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, but in the case of joint holders, shall be addressed to the holder whose name stands first in the register of members of the Company in respect of the shares at his address as appearing in the register, or addressed to such person and at such address as the holder or joint holders may in writing so direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

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Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the moneys so advanced may pay interest at such rate (if any) not exceeding 20 % per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise 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, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

### **(o) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that any form issued to a member for use by him for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

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### **(p) Calls on shares and forfeiture of shares**

The Board may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix 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 money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and it shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the 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, nevertheless, remain liable to pay to the Company all moneys 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 payment at such rate not exceeding 20 per cent per annum as the Board may prescribe.

### **(q) Inspection of corporate records**

Members of the Company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. However, the members of the Company will have such rights as may be set forth in the Articles. The Articles provide that for so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong

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Kong (except when the register of member is closed) without charge and require the provision to him of copies or extracts thereof in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as its directors may, from time to time, think fit.

### **(r) Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

### **(s) Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

### **(t) 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 shall be 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, then 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 shall be 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, on the shares held by them respectively.

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In the event that the Company is wound up (whether the liquidation is voluntary or compelled by the court) the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets 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 and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

### **(u) Untraceable members**

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

In accordance with the Articles, the Company is entitled to sell any of the shares of a member who is untraceable if:

- (i) all cheques or warrants, being not less than three in total number, for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years;
- (ii) upon the expiry of the 12 years and 3 months period (being the 3 months notice period referred to in sub-paragraph (iii)), the Company has not during that time received any indication of the existence of the member; and
- (iii) the Company has caused an advertisement to be published in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the stock exchange of the Relevant Territory (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

### **(v) Subscription rights reserve**

Pursuant to the Articles, provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

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### **3. CAYMAN ISLANDS COMPANY LAW**

The Company was incorporated in the Cayman Islands as an exempted company on 4 August 2009 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

#### **(a) Company operations**

As an exempted company, the Company must conduct its operations mainly outside the Cayman Islands. Moreover, 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**

In accordance with the Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman 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 such manner as the company may from time to time determine including, but without limitation, the following:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) in the redemption and repurchase of shares (in accordance with the detailed provisions of section 37 of the Cayman Companies Law);
- (iv) writing-off the preliminary expenses of the company;
- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (vi) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

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Notwithstanding the foregoing, the Cayman Companies Law provides that 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.

It is further provided by the Cayman Companies Law that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

The Articles include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

### **(c) Financial assistance to purchase shares of a company or its holding company**

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company when proposing to grant such financial assistance discharge their duties of care and acting in good faith, for a proper purpose and in the interests of the company. 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 member. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. Nonetheless, if the articles of association do not authorize the manner of purchase, a company cannot purchase any of its own shares without the manner of purchase first being authorised by an ordinary resolution of the company. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy and sell and deal in personal property of all kinds.

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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**

With the exception of section 34 of the Cayman Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Cayman 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 (see sub-paragraph 2(n) of this Appendix for further details).

### **(f) Protection of minorities and shareholders’ suits**

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions thereto) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge:

- (i) an act which is ultra vires the company or illegal;
- (ii) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and
- (iii) an irregularity in the passing of a resolution the passage of which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members thereof holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report thereon.

Moreover, any member of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company’s memorandum and articles of association.

### **(g) Disposal of assets**

There are no specific restrictions in the Cayman Companies Law on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and

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## **APPENDIX IV**

## **SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN COMPANY LAW**

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discharging his duties must do so honestly and in good faith with a view to the best interest 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**

Section 59 of the Cayman Companies Law provides that a company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters with respect to 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.

Section 59 of the Cayman Companies Law further states that 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.

### **(i) Exchange control**

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

### **(j) Taxation**

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 certain stamp duties which may be applicable, from time to time, on certain instruments. The Cayman Islands are not a party to any double tax treaties.

### **(k) Stamp duty on transfers**

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

### **(l) Loans to directors**

The Cayman Companies Law contains no express provision prohibiting the making of loans by a company to any of its directors. However, the Articles provide for the prohibition of such loans under specific circumstances.

### **(m) Inspection of corporate records**

The members of the company have no general right under the Cayman 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 of association.

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### **(n) Register of members**

A Cayman Islands exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as the directors may, from time to time, think fit. The Cayman Companies Law contains no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

### **(o) Winding up**

A Cayman Islands company may be wound up either by (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company occurs where the members so resolve in general meeting by special resolution, or, by ordinary resolutions when the company is unable to pay its debt as they fall due; or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or where the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members’ voluntary winding up of a company, one or more liquidators shall be appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed off, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order shall take effect for all purposes as if it was an order that the company be wound up by the court except that the commenced voluntary winding up and prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

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For the purpose of conducting the proceedings in winding up a company and assisting the court, there may be appointed one or more persons to be called an official liquidator or official liquidators; and the court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one persons are appointed to such office, the court shall declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

### **(p) Reconstructions**

Reconstructions and amalgamations are governed by specific statutory provisions under the Cayman Companies Law whereby such arrangements may be approved by a majority in number representing 75% in value of members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member would have the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, nonetheless the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

### **(q) Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

### **(r) Indemnification**

Cayman Islands law does not limit the extent to which a company’s articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

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**4. GENERAL**

Appleby, the Company’s legal adviser on Cayman Islands law, have sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed “Documents Available for Inspection” in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

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## APPENDIX V

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### FURTHER INFORMATION ABOUT THE GROUP

#### 1. Incorporation of the Company

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 4 August 2009.

As the Company is incorporated in the Cayman Islands, its operations are subject to the relevant laws and regulations of the Cayman Islands and to its constitution, which comprises the Memorandum of Association and the Articles of Association. A summary of certain parts of its constitution and relevant aspects of the Cayman Islands company law is set out in Appendix IV of this document.

#### 2. Changes in the authorised and issued share capital of the Company

The authorised share capital of the Company as at the date of its incorporation (4 August 2009) was US\$50,000.00 divided into 50,000 shares of par value US\$1.00 each. On the same date, one (1) subscriber's share in the Company then held by the initial subscriber, namely, Offshore Incorporations (Cayman) Limited, was transferred to New Charming at the consideration of US\$1 each.

Pursuant to the resolutions of the sole shareholder of the Company passed on 8 April 2010, the denomination of the currency in the authorised share capital of the Company was changed from U.S. dollar to Hong Kong dollar at the rate of HK\$7.80 per US\$1.00 and upon such change of currency denomination becoming effective, each ordinary share of par value HK\$7.80 each was subdivided into 78 ordinary shares of par value HK\$0.10 each. Immediately following the change of currency denomination, the authorised share capital of the Company became HK\$390,000 divided into 3,900,000 ordinary shares of par value HK\$0.10 each.

Pursuant to the resolutions of the sole shareholder of the Company passed on 29 June 2010, every three (3) issued and unissued shares of par value HK\$0.10 each in the then share capital of the Company were consolidated into one (1) ordinary Share of par value HK\$0.30 each. Immediately following such consolidation, the authorised share capital of the Company was increased from HK\$390,000 to HK\$600,000,000 by the creation of 1,998,700,000 new ordinary Shares of par value HK\$0.30 each.

On 29 June 2010, the Company acquired the entire issued share capital of Bright Smart Futures, Bright Smart Securities and Merit Act through Bright Smart Investment from Fortune Crown, Manet Good and Mr. Yip, in consideration of and exchange for which the Company allotted and issued, credited as fully paid, an aggregate of 499,999,974 Shares to New Charming at the directions of the respective vendors.

On 2 July 2010, New Charming transferred to BOCOM International Holdings 50,000,000 Shares, representing 10% shareholding interests in the Company at HK\$11,403,857 pursuant to the Call Option Agreement, principal terms of which are set out in the section entitled “History, Reorganisation and Group Structure — Strategic Investments from BOCOM International Holdings” in this document.

Immediately following completion of the [●] but not taking into account of any Shares which may be allotted and issued upon the exercise of the [●] or pursuant to the exercise of any options which may be granted under the Share Option Scheme, the authorised share capital of the Company will be HK\$[●]

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divided into [●] Shares and the issued share capital will be HK\$[●] divided into [●] Shares, all fully paid or credited as fully paid and [●] Shares will remain unissued. Other than pursuant to the exercise of the [●] or the options which may be granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of the Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as aforesaid and disclosed in the following paragraphs of this section headed “Further information about the Group”, there has been no alteration in the share capital of the Company since its incorporation.

### 3. Resolutions in writing of all Shareholders passed on 4 August 2010

Pursuant to the resolutions in writing of all Shareholders passed on 4 August 2010:

- (a) the Company approved and adopted the Memorandum of Association and Articles of Association;
- (b) conditional upon the same conditions to be satisfied and/or waived as stated in the section headed “Structure of the [●] — Conditions of the [●]” in this document:
  - (i) the [●] and the [●] were approved and the Directors were authorised to approve the allotment and issue of the [●] pursuant to the [●] and such number of Shares as may be required to be allotted and issued upon the exercise of the [●];
  - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in paragraph headed “Share Option Scheme” of this Appendix, were approved and adopted and the Directors or any such committee thereof were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at their absolute discretion, subject to the terms and conditions of the Share Option Scheme to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, expedient or desirable to implement the Share Option Scheme;
  - (iii) a general unconditional mandate was given to the Directors to exercise all powers of the Company 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 any options which may be granted under the Share Option Scheme, or under the [●] or upon the exercise of the [●], Shares with an aggregate nominal amount of not exceeding the sum of (a) 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following the completion of the [●] (excluding the Shares which may be issued pursuant to the exercise of the [●] or exercise of options that may be granted under the Share Option Scheme); and (b) the aggregate nominal amount of the share capital of the Company which may be purchased by the Company pursuant to the authority granted to the Directors as referred to in paragraph (iv) below, until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting

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of the Company is required by the Articles of Association or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by Shareholders of the Company revoking or varying the authority given to the Directors, whichever occurs first; and

- (iv) a general unconditional mandate (“**Repurchase Mandate**”) was given to the Directors to exercise all powers of the Company to purchase Shares with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued immediately following completion of [●] (excluding the Shares which may be issued pursuant to the exercise of the [●] or exercise of options that may be granted under the Share Option Scheme), until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Articles of Association or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors, whichever occurs first; and
- (v) the general unconditional mandate granted pursuant to paragraph (v) above be extended by the aggregate nominal value of share capital of the Company repurchased pursuant to the Repurchase Mandate.

### 4. Group reorganisation

The companies comprising the Group underwent a reorganisation to rationalise the Group’s structure in preparation for the [●]. The reorganisation involved the following:

- (a) On 4 August 2009, the Company was incorporated in the Cayman Islands and one (1) ordinary share of US\$1 in the share capital of the Company was acquired by New Charming.
- (b) On 22 October 2009, Bright Smart Investment was incorporated in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. On the same date 100 ordinary shares of US\$1 each in the capital of Bright Smart Investment were allotted and issued for cash at par to the Company.
- (c) On 29 June 2010, the Company through its wholly owned subsidiary Bright Smart Investment acquired from (i) Mr. Yip and Fortune Crown 20,000,000 shares of HK\$1 each in the share capital of Bright Smart Futures, (ii) Manet Good 110,000,000 shares of HK\$1 each in the share capital of Bright Smart Securities and (iii) Mr. Yip of 1 shares of HK\$1 each in the share capital of Merit Act, in aggregate, in consideration of and exchange for which the Company allotted and issued, credited as fully paid, an aggregate of 499,999,974 new Shares of HK\$0.30 each in the share capital of the Company to New Charming.
- (d) On 21 January 2010, Glow Dragon was incorporated in Hong Kong with limited liability with an authorised share capital of HK\$10,000 divided into 10,000 shares of par value HK\$1 each, of which 1 share was acquired by Bright Smart Investment on 25 February 2010.

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- (e) On 13 January 2010, Huge Dynasty was incorporated in Hong Kong with limited liability with an authorised share capital of HK\$10,000 divided into 10,000 shares of par value HK\$1 each, of which 1 share was acquired by Bright Smart Investment on 22 March 2010.

### 5. Changes in the share capital of the subsidiaries of the Company

The subsidiaries of the Company are listed in the accountants’ report, the text of which is set out in Appendix I to this document. In addition to the alterations described in paragraph 4 above, the following changes in the share capital of the Company’s subsidiaries took place within the two years immediately preceding the date of this document:

(a) *Bright Smart Securities*

On 21 July 2009, the authorised share capital of Bright Smart Securities was increased from HK\$90,000,000 to HK\$110,000,000 by the creation of 20,000,000 shares of HK\$1 each, all of which were allotted and issued for cash at par to Manet Good.

(b) *Merit Act*

Merit Act was incorporated in Hong Kong with limited liability on 3 November 2009 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1 each, of which 1 share was acquired by Mr. Yip on 13 January 2010.

(c) *Glow Dragon*

Glow Dragon was incorporated in Hong Kong with limited liability on 21 January 2010 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1 each, of which 1 share was acquired by Bright Smart Investment on 25 February 2010.

(d) *Huge Dynasty*

Huge Dynasty was incorporated in Hong Kong with limited liability on 13 January 2010 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1 each, of which 1 share was acquired by Bright Smart Investment on 22 March 2010.

Save as disclosed herein, there had been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the date of this document.

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### 6. Repurchase by the Company of its own securities

This paragraph includes the information required by the Stock Exchange to be included in this document concerning the repurchase by the Company of its own securities.

#### (a) *Sources of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and Articles and the applicable laws of the Cayman Islands. A listed company is prohibited from repurchasing its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Under Cayman Islands law, any repurchases by the Company may be made out of profits of the Company or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by its Articles of Association and subject to the Companies Law, out of capital and, in case of any premium payable on the repurchase out of profits of the Company or from sums standing to the credit of the share premium account of the Company or, if authorised by its Articles of Association and subject to the Companies Law, out of capital.

#### (b) *Reasons for repurchases*

The Directors believe that it is in the best interests of the Company and the Shareholders for the Directors to have the general authority from the Shareholders to enable the Company to repurchase securities 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 and/or earnings per Share and will only be made if the Directors believe that such repurchases will benefit the Company and its Shareholders.

#### (c) *Exercise of the Repurchase Mandate*

Assuming that the [●] is not exercised, the exercise in full of the Repurchase Mandate, on the basis of [●] Shares in issue immediately following the [●], could result in up to [●] Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

Assuming that the [●] is exercised in full and on the basis of [●] Shares in issue immediately following the exercise of the [●], the exercise in full of the Repurchase Mandate could result in up to [●] Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

On the basis of the current financial position of the Group as disclosed in this document and taking into account the current working capital position of the Group, the Directors consider that, if the Repurchase Mandate were to be exercised in full, there might be a material adverse impact on the working capital and/or gearing positions of the Group (as compared with the positions disclosed in this document). However, the 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 the Group or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Group.

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(d) *General*

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to the Company or its subsidiaries if the Repurchase Mandate is exercised.

The 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, the Memorandum and Articles and the applicable laws of the Cayman Islands.

No connected person of the Company has notified the Company that he/she/it has a present intention to sell Shares to the Company, or has undertaken not to do so, in the event the Repurchase Mandate is exercised.

If, as a result of a repurchase of securities, a Shareholder’s proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder, or group of Shareholders acting in concert (within the meaning of the Takeovers Code), could obtain or consolidate control of the Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequence which would arise under the Takeovers Code as a consequence of any repurchase made pursuant to the Repurchase Mandate immediately after [●].

No repurchase of Shares has been made since the incorporation of the Company.

### **7. Registration under Part XI of the Companies Ordinance**

The Company has established its head office and a principal place of business in Hong Kong at 10/F, Wing On House, No. 71 Des Voeux Road, Central, Hong Kong, and was registered on 14 June 2010 as a non-Hong Kong company under Part XI of the Companies Ordinance, with Li Wan Mei of Flat C, 6/F, Block 6, Scenic Gardens, Yuen Long, New Territories, Hong Kong as an authorised person of the Company for the acceptance of service of process and notices in Hong Kong. The address for service of process and notices on the Company is the same as the address of the head office and principal place of business in Hong Kong.

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### FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP

#### 8. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this document and are or may be material:

- (a) the Deed of Non-Competition;
- (b) the sale and purchase agreement dated 29 June 2010 among the Company, Mr. Yip, Manet Good, Fortune Crown, Merit Act, Bright Smart Futures and Bright Smart Securities in relation to the acquisition of Bright Smart Futures, Bright Smart Securities and Merit Act;
- (c) the deed of indemnity dated [●] 2010 executed by New Charming and Mr. Yip in favour of the Company for itself and as trustee for its subsidiaries stated therein containing (i) the indemnities in respect of taxation and (ii) certain other indemnities and undertakings as more particularly set out in the paragraph headed “Estate duty, tax and other indemnities” under the section headed “Other information” in this Appendix; and
- (d) [●]

#### 9. Intellectual property rights of the Group

##### (a) Trade marks

As at the Latest Practicable Date, the Group was the registered proprietor and beneficial owner of the following trade marks:

| Trade Marks                                                                                                                  | Registrant              | Place of Registration | Registration Number | Date of Expiry   | Class           |
|------------------------------------------------------------------------------------------------------------------------------|-------------------------|-----------------------|---------------------|------------------|-----------------|
| <sup>A</sup>  <b>Bright Smart</b><br>耀才證券 | Bright Smart Securities | Hong Kong             | 301246239           | 25 November 2018 | 36 <sup>†</sup> |
| <sup>B</sup>  <b>Bright Smart</b><br>耀才證券 |                         |                       |                     |                  |                 |
| <sup>C</sup>  <b>Bright Smart</b><br>耀才證券 |                         |                       |                     |                  |                 |

<sup>†</sup> Insurance; financial affairs; monetary affairs; real estate affairs.

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As at the Latest Practicable Date, the Group has applied for registration of the following trade marks:

| Trade Marks                                                                              | Applicant               | Place of Application | Application Number | Class           | Filing Date    |
|------------------------------------------------------------------------------------------|-------------------------|----------------------|--------------------|-----------------|----------------|
| Bright Smart                                                                             | The Company             | China                | 7651271            | 36 <sup>†</sup> | 27 August 2009 |
| 耀才                                                                                       | The Company             | China                | 7651270            | 36 <sup>†</sup> | 27 August 2009 |
| Bright Smart Securities                                                                  | The Company             | China                | 7651269            | 36 <sup>†</sup> | 27 August 2009 |
| 耀才証券                                                                                     | The Company             | China                | 7651268            | 36 <sup>†</sup> | 27 August 2009 |
| Bright Smart Group                                                                       | The Company             | China                | 7651267            | 36 <sup>†</sup> | 27 August 2009 |
| 耀才集团                                                                                     | The Company             | China                | 7651266            | 36 <sup>†</sup> | 27 August 2009 |
| Bright Smart Securities & Commodities Group Limited                                      | The Company             | China                | 7651265            | 36 <sup>†</sup> | 27 August 2009 |
| 耀才証券金融集团有限公司                                                                             | The Company             | China                | 7651264            | 36 <sup>†</sup> | 27 August 2009 |
|       | The Company             | China                | 7651263            | 36 <sup>†</sup> | 27 August 2009 |
| A<br> | Bright Smart Securities | Hong Kong            | 301623014          | 36 <sup>†</sup> | 26 May 2010    |
| B<br> |                         |                      |                    |                 |                |
| C<br> |                         |                      |                    |                 |                |

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‡ 資本投資；基金投資；貨幣兌換；金融貸款；金融管理；金融諮詢；證券和公債經紀；證券交易行情；期貨經紀；經紀；金融服務/Capital investment; fund investment; foreign currency exchange; financial loans; financial management; financial consultancy; securities and bonds brokerage; stock exchange quotations; futures brokerage; brokerage; financial services.

† Insurance; financial affairs; monetary affairs; real estate affairs.

### (b) *Domain Names*

As at the Latest Practicable Date, the Group had registered the following domain names:

| <u>Registration date</u>  | <u>Expiry date</u> | <u>Domain name</u>             |
|---------------------------|--------------------|--------------------------------|
| 13 May 2009 . . . . .     | 15 April 2012      | bsgbsg.com.hk                  |
| 12 May 2009 . . . . .     | 12 May 2012        | bsgbsg.com                     |
| 13 May 2009 . . . . .     | 13 May 2012        | bsgbsg.com.tw<br>bsgbsg.com.cn |
| 5 February 1999 . . . . . | 18 March 2015      | bsgroup.com.hk                 |
| 18 March 2008 . . . . .   | 19 March 2012      | BRIGHTSMART.COM.HK<br>耀才證券.hk  |

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### FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF

#### 10. Particulars of service agreements

Each of the executive Directors has entered into a service agreement with the Company pursuant to which each of them had agreed to act as an executive Director for an initial term of three years commencing from the [●] and renewable automatically for successive terms of one year each commencing from the day following the expiry of the then current term unless and until (i) terminated by either party thereto giving not less than three months’ prior written notice, with the last day of the notice falling on the last day of the initial term or any time thereafter; or (ii) the Director not being re-elected as a Director or being removed by Shareholders at general meeting of the Company in accordance with the Articles of Association. Each of the executive Directors shall be entitled to an annual salary as set out below, subject to an annual review by the remuneration committee of the Board. Upon completion of every 12 months of service, each of the executive Directors will be entitled to a discretionary management bonus provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of the Company shall be subject to the approval by the Shareholders in general meeting. The current basic annual salaries of the executive Directors are as follows:]

| <u>Name</u>                         | <u>Annual salary</u><br>(HK\$) |
|-------------------------------------|--------------------------------|
| Mr. Yip . . . . .                   | 1,200,000                      |
| [Chan Kai Fung] . . . . .           | 1,440,000                      |
| [Chan Wing Shing, Wilson] . . . . . | 540,000                        |
| [Kwok Sze Chi] . . . . .            | 1,200,000                      |
| [Hui Wah Chiu] . . . . .            | <u>1,200,000</u>               |
| Total: . . . . .                    | <u><u>5,580,000</u></u>        |

Each of the Mr. Yu Yun Kong and Mr. Ling Kwok Fai, Joseph is appointed as an independent non-executive director for a fixed term of three years commencing from the [●], while Mr. Szeto Wai Sun is appointed as an independent non-executive Director for a fixed term of one year commencing from the [●]. The annual fee payable to each of Mr. Yu Yan Kong, Mr. Ling Kwok Fai, Joseph and Mr. Szeto Wai Sun Directors shall be HK\$140,000, HK\$100,000 and HK\$120,000 respectively. Save for director’s fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding the offices as an independent non-executive Director.

#### 11. Directors’ remuneration

Remuneration of HK\$[3.5] million, HK\$[3.8] million and HK\$[5.0] million in aggregate were paid by the Group to the Directors in respect of each of the three years ended 31 March 2008, 2009 and 2010.

Under the current arrangements, it is expected that the Directors will be entitled to receive an aggregate remuneration of HK\$[●] million, for the year ending 31 March 2011, excluding the discretionary bonuses payable to the Directors.

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None of the Directors or any past directors of any member of the Group has been paid any sum of money for each of the three years ended 31 March 2010 as (i) an inducement to join or upon joining the Company; or (ii) for loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any members of the Group.

There has been no arrangement under which a Director has waived or agreed to waive any remuneration for each of the three years ended 31 March 2010.

### 12. Disclosure of interests

(a) *Interests and short positions of Directors in the share capital of the Company and its associated corporations*

So far as the Directors are aware, immediately following completion of the [●] (taking no account of any Shares which may be issued upon the exercise of the [●] or any option which may be granted under the Share Option Scheme), the interests and short positions of the Directors and chief executive of the Company in the Shares or underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) once the Shares are listed, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, once the Shares are listed, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules to be notified to the Company and the Stock Exchange once the Shares are listed, will be as follows:

| <u>Name of Director</u>         | <u>The company concerned</u> | <u>Capacity</u>                      | <u>Number and class of securities (note 1)</u> | <u>Approximate percentage shareholding in the same class of securities of the relevant company (approximate)</u> |
|---------------------------------|------------------------------|--------------------------------------|------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| [Mr. Yip]<br>(note 2) . . . . . | The Company                  | [Interest of controlled corporation] | [●] (L) [●]%                                   |                                                                                                                  |
|                                 |                              | [Interest of controlled corporation] | [●] (S) [●]%<br>(note 3)                       |                                                                                                                  |
| Mr. Yip . . . . .               | New Charming                 | [Beneficial Owner]                   | [●] (L) [●]%                                   |                                                                                                                  |

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### Notes:

1. The letter “L” denotes the entity/person’s long position and the letter “S” denotes the entity/person’s short position respectively, in the Shares.
2. [New Charming is a substantial Shareholder which is wholly owned by Mr. Yip (an executive Director and the Chairman of the Group). Accordingly, Mr. Yip is deemed to be interested in all the Shares held by New Charming.]
3. These shares are the subject of the [●].

### (b) *Substantial Shareholders and other interests discloseable under the SFO*

So far as is known to the Directors, immediately following completion of the [●] (taking no account of any Shares which may be issued upon the exercise of the [●] and options that may be granted under the Share Option Scheme), the following persons (other than a Director or chief executive of the Company) will have an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group or have any option in respect of such capital:

| Name                                         | Capacity                           | Name of member of the Group | Class and number of securities<br>(note 1) | Approximate percentage of shareholding in the relevant member of the Group |
|----------------------------------------------|------------------------------------|-----------------------------|--------------------------------------------|----------------------------------------------------------------------------|
| [BOCOM International Holdings]               | Beneficial owner                   | The Company                 | [50,000,000] (L)<br>Ordinary Shares        | [7.5]%                                                                     |
| Bank of Communications Co., Ltd.<br>(Note 2) | Interest in controlled corporation | The Company                 | [50,000,000] (L)<br>Ordinary Shares        | [7.5]%                                                                     |
| New Charming<br>(note 3)                     | Beneficial owner                   | The Company                 | [●] (L)<br>[●] (S)<br>(note 4)             | [67.5]%<br>[●]%                                                            |

### Notes:

1. The letter “L” denotes the entity/person’s long position and the letter “S” denotes the entity/person’s short position respectively, in the Shares.

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2. BOCOM International Holdings is beneficially wholly owned by Bank of Communications Co., Ltd. Therefore, Bank of Communications Co., Ltd. is deemed or taken to be interested in all the Shares which are beneficially owned by BOCOM International Holdings.
3. [New Charming is a limited liability company incorporated in BVI and is wholly owned by Mr. Yip (an executive Director and Chairman of the Group). Accordingly, Mr. Yip is deemed to be interested in all the Shares held by New Charming.]
4. These shares will be the subject of the [●].

### 13. Personal guarantees

[All personal guarantees given by the Directors as security for any debts or liabilities incurred by any member of the Group have been released and replaced by corporate guarantees upon [●]. Accordingly, none of the Directors provided any personal guarantee as security for any debts or liabilities incurred by any member of the Group as at the Latest Practicable Date.]

### 14. [●]

[●]

### 15. Related party transactions

During the two years immediately preceding the date of this document, the Group engaged in the related party transactions as mentioned in [note (25)] of the accountants’ report set out in Appendix I to this document.

### 16. Disclaimers

Save as disclosed in this document:

- (i) and taking no account of any Shares which may be taken up or acquired under the [●] or upon the exercise of the [●] or any option which may be granted under the Share Option Scheme, none of the Directors or chief executive of the Company had any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) once the Shares are listed, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, once the Shares are listed, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules to be notified to the Company and the Stock Exchange once the Shares are listed on the Main Board;
- (ii) and taking no account of any Shares which may be taken up or acquired under the [●] or issued upon the exercise of the [●] or any option which may be granted under the Share Option Scheme, so far as is known to the Directors, no person (not being a Director or chief executive of the Company) will have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the

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provisions of Divisions 2 and 3 of Part XV of the SFO, or will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group or have any option in respect of such capital immediately following completion of the [●];

- (iii) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between the Group and any of the Directors;
- (iv) none of the Directors or any persons referred to in the paragraph headed “Qualifications and consents of experts” in this Appendix has any direct or indirect interest in the promotion of, or in any assets which have been within the two years immediately preceding the date of this document acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired, disposed of by or leased to any member of the Group nor will any Director apply for Shares either in his own name or in the name of a nominee;
- (v) none of the Directors or any persons referred to in the paragraph headed “Qualifications and consents of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of the Group taken as a whole; and
- (vi) none of the person referred to in the paragraph headed “Qualifications and consents of experts” in this Appendix has any shareholding in any member in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member in the Group.

No other options had been granted or agreed to be granted by the Company as at the Latest Practicable Date.

### OTHER INFORMATION

#### 17. Share Option Scheme

The following is a summary of principal terms of the Share Option Scheme conditionally approved by a written resolution of all Shareholders passed on 4 August 2010 and adopted by a resolution of the Board on 4 August 2010. The terms of the Share Option Scheme are in accordance with the provisions under the Listing Rules. As at the Latest Practicable Date, no option has been granted pursuant to the Share Option Scheme.

##### *Purpose of the scheme*

The purpose of the Share Option Scheme is to enable the Group to grant options to the Eligible Persons (as defined below) as incentives or rewards for their contribution to the Group.

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### *Conditions of the Share Option Scheme*

The Share Option Scheme shall come into effect on the date (the “**Approval Date**”) on which the following conditions are fulfilled:

- the passing of the necessary resolution to approve and adopt the Share Option Scheme in general meeting or by way of written resolution of Shareholders; and
- the Stock Exchange granting the listing and permission to deal in such number of Shares representing the Scheme Mandate Limit (as defined below) to be allotted and issued by the Company pursuant to the exercise of the Options (as defined below) in accordance with the terms and conditions of the Share Option Scheme.

### *Who may join*

The Board may, at its absolute discretion, offer options (“**Options**”) to subscribe to such number of Shares in accordance with the terms set out in the Share Option Scheme to:

- any proposed executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group (“**Employee**”), any full-time or part-time Employee, or a person for the time being seconded to work full-time or part-time for any member of the Group (“**Executive**”);
- any non-executive directors (including independent non-executive directors) of the Group;
- any direct or indirect shareholder of any member of the Group;
- any supplier of goods or services to any member of the Group;
- any customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group;
- any person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and
- any associate of any of the foregoing persons.

(the persons referred above are the “**Eligible Persons**”)

### *Maximum number of Shares*

The maximum number of Share which may be allotted and issued upon exercise of all Options excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of the Group to be granted under the Share option Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the Shares in issue as at the [●] (the “**Scheme Mandate Limit**”) provided that (a) the Company may seek approval from its Shareholders in general meeting to refresh the Scheme Mandate Limit, provided that the maximum number of Shares which may be allotted and issued

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upon exercise of all Options to be granted under the Share Option Scheme and any share option other scheme of the Group must not exceed 10% of the Share in issue as at the date of approval by Shareholders in general meeting where the Scheme Mandate Limit is refreshed and, for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of the Group) previously granted under the Share Option Scheme and any other share option scheme of the Group will not be counted; and (b) the Company may seek separate approval from the Shareholders in general meeting for granting Options under the Share Option Scheme beyond the Scheme Mandate Limit or, if applicable, the extended Scheme Mandate Limit referred to in (a), provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Person specified by the Company before such approval is obtained.

The maximum number of Shares which may be allotted and issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other options granted and yet to be exercised under any other share option scheme of the Group shall not exceed 30% of the Company's issued share capital from time to time. No options may be granted under the Share Option Scheme or any other share option scheme of the Group if this will result in such limit being exceeded.

### *Maximum entitlement of each participant*

No Options may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of our Company's issued share capital for the time being unless the same is separately approved by Shareholders in general meeting with such grantee and his associates abstaining from voting.

### *Offer and grant of Options*

Subject to the terms of the Share Option Scheme, the Board shall be entitled (but shall not be bound) at any time within a period of 10 years after the Approval Date to make an offer for the grant of an Option to any Eligible Person to subscribe at the subscription price for such number of Shares as the Board may determine (provided the same shall be a board lot for dealing in the Shares on the Stock Exchange or an integral multiple thereof).

Subject to the provisions of the Listing Rules, the Board may when offering the grant of an Option impose any terms and conditions in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in the letter containing the offer of the grant of the Option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by our Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period when the right to exercise the Option in respect of all or some of the Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in

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relation to their vesting, exercise or otherwise), there is no minimum period for which an Option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the Option can be exercised.

### *Granting Options to Connected Persons*

Subject to the terms in the Share Option Scheme, where any offer of an Option is proposed to be made to any Director, chief executive or substantial Shareholder (as defined in the Listing Rules) of the Company or any of their respective associates, such offer must first be approved by the independent non-executive Directors (excluding the independent non-executive Director who or whose associates is the proposed grantee of an Option).

Where any grant of Options to a substantial Shareholder (as defined in the Listing Rules) or an independent non-executive Director, or any of their respective associates, would 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:

- representing in aggregate over 0.1% of the Shares in issue; and
- having an aggregate value, based on the closing price of the Shares at the date of each offer, in excess of HK\$5 million,

such further grant of Options must be approved by Shareholders in general meeting. The Company shall send a circular to Shareholders containing the information required under the Listing Rules. All connected persons of the Company must abstain from voting in favour at such general meeting.

### *Offer period and number accepted*

An offer of the grant of an Option shall remain open for acceptance by the Eligible Person concerned (and by no other person) for a period of 28 days from the offer date provided that no such grant of an Option may be accepted after the expiration of the effective period of the Share Option Scheme. An Option shall have been accepted by the Eligible Person and to have taken effect when the duplicate Offer letter comprising acceptance of the Offer of the Option duly signed by the grantee together with a remittance in favour of the Company of HK\$1.0 by way of consideration for the grant thereof is received by the Company on or before 30 days after the offer date. Such remittance shall in no circumstances be refundable.

Any offer of the grant of an Option may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate Offer letter comprising acceptance of the offer of the Option.

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### *Restriction on the time of grant of Options*

The Board shall not make an offer to grant any Option under the Share Option Scheme after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced in accordance with the requirements of the Listing Rules. In particular, no Option shall be granted on any day on which the Company’s financial results are published and (a) during the period of 60 days immediately preceding the publication date of its annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and (b) during the period of 30 days immediately preceding the publication date of its quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

### *Exercise price*

The subscription price in respect of any particular Option shall be such price as the Board may in its absolute discretion determine but the subscription price shall not be less than whichever is the highest of:

- the nominal value of a Share;
- the closing price of a Share as stated in the Stock Exchange’s daily quotations sheet on the offer date; and
- the average closing price of a Share as stated in the Stock Exchange’s daily quotation sheets for the five Business Days immediately preceding the offer date.

### *Exercise of Option*

An Option shall be exercised in whole or in part (but if in part only, in respect of a board lot or any integral multiple thereof) within the option period in the manner as set out in this Share Option Scheme by the grantee (or his legal personal representative(s)) by giving notice in writing to the Company stating that the Option is thereby exercised and specifying the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given.

The exercise of any Option shall be subject to the members of the Company in general meeting approving any necessary increase in the authorised share capital of the Company.

Subject as hereinafter provided:

- (a) if the grantee is an Employee and in the event of his ceasing to be an Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the Option in full, his personal representative(s) or, as appropriate, the grantee may exercise the Option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation of employment which date shall be the last day on which the grantee was at work with the

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Group whether salary is paid in lieu of notice or not, or such longer period as the Directors may determine or, if any of the events referred to in (c) or (d) occur during such period, exercise the Option pursuant to paragraph (c) or (d) respectively;

- (b) if the grantee is an Employee and in the event of his ceasing to be an Employee for any reason other than his death, ill-health or retirement in accordance with his contract of employment or the termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of the Directors does not bring the grantee or the Group into disrepute) before exercising the Option in full, the Option (to the extent not already exercised) shall lapse on the date of cessation or termination and not be exercisable unless the Directors otherwise determine in which event the grantee may exercise the Option (to the extent not already exercised) in whole or in part within such period as the Directors may determine following the date of such cessation or termination or, if any of the events referred to hereinbelow in sub-paragraph (c) or (d) occur during such period, exercise the Option pursuant to paragraph (c) or (d) respectively. The date of cessation or termination as aforesaid shall be the last day on which the grantee was actually at work with the Group whether salary is paid in lieu of notice or not;
- (c) if a general offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of the 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, the Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the Options granted to them, Shareholders. The grantee shall be entitled to exercise the Option (to the extent not already exercised) at any time (in the case of a takeover offer) within one month after the date on which the offer becomes or is declared unconditional or such scheme of arrangement is formally proposed to Shareholders. Subject thereto, the Option will lapse automatically (to the extent not exercised) on the date which such offer (or, as the case may be, revised offer) closed;
- (d) in the event of a resolution being proposed for the voluntary winding-up of the Company during the Option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to the Company at any time not less than two business days before the date on which such resolution is to be considered and/or passed, exercise his Option (to the extent not already exercised) either to its full extent or to the extent specified in such notice and the Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his Option not less than one business day before the date on which such resolution is to be considered and/or passed whereupon he shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of the Company available in liquidation *pari passu* with the holders of the

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Shares in issue on the day prior to the date of such resolution. Subject thereto, all Options then outstanding shall lapse and determine on the commencement of the winding-up of the Company; and

- (e) if a compromise or arrangement between the Company and its members or creditors is proposed for the purpose of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company, the Company shall give notice thereof to the grantees who have Options unexercised at the same time as it dispatches notices to all members or creditors of our Company summoning the meeting to consider such a compromise or arrangement and thereupon each grantee (or his legal representatives or receiver) may until the expiry of the earlier of:
  - (i) the Option period (in respect of any particular Option, the period commencing immediately after the business day on which the Option is deemed to be granted and accepted in accordance with the Share Option Scheme and expiring on a date to be determined and notified by the Directors to each grantee provided that such period shall not exceed the period of 10 years from the date of the grant of a particular Option but subject to the provisions for early termination thereof contained in the Share Option Scheme);
  - (ii) the period of two months from the date of such notice; or
  - (iii) the date on which such compromise or arrangement is sanctioned by the court, exercise in whole or in part his Option.

### *Ranking of Shares*

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the Articles of Association and the laws of the Cayman Islands from time to time and shall rank *pari passu* in all respects with the then existing fully paid Shares in issue on the allotment date or, if that date falls on a day when the register of members of the Company is closed, the first date of the reopening of the register of members, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the allotment date or, if that date falls on a day when the register of members of the Company is closed, the first day of the re-opening of the register of members, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the allotment date.

Any Shares allotted and issued upon the exercise of an Option shall not carry voting rights until the registration of the grantee (or any other person) has been duly entered on the register of members of the Company as the holder thereof.

### *Life of Share Option Scheme*

Subject to the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options may be granted or offered but the provisions of the Share Option Scheme shall

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remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting Options granted or exercised prior to the expiry of the 10-years period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

### *Lapse of Share Option Scheme*

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- the expiry of the option period;
- the expiry of any of the period referred to in paragraphs related to exercise of Option in the paragraph headed “Exercise of Option” above;
- in respect of a grantee who is an Employee, the date on which the grantee ceases to be an Employee by reason of a termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of the Directors does not bring the grantee or the Group into disrepute);
- in respect of a grantee other than an Employee, the date on which the Directors shall at their absolute discretion determine that (i) (a) such grantee or his associate has committed any breach of any contract entered into between such grantee or his associate on the one part and the Group or any the Group’s invested entity on the other part; or (b) such grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (c) such grantee could no longer make any contribution to the growth and development of the Group by reason of the cessation of its relations with the Group or by any other reason whatsoever; and (ii) the Option shall lapse as a result of any event specified in sub-paragraphs (a), (b) or (c) above; and
- the date on which the Directors shall exercise the Company’s right to cancel the Option by reason of a breach of the provisions on restrictions of transferability in the Share Option Scheme by the grantee in respect of that or any other Option.

No compensation shall be payable upon the lapse of any Option, provided that the Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

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### *Adjustment*

In the event of any alteration to the capital structure of the Company while any Option remains exercisable, or the Share Option Scheme remains in effect, and such event arises from a capitalization of profits or reserves, rights issue, consolidation, reclassification, reconstruction, sub-division of the Shares or reduction of the share capital of the Company, the Board may, if it considers the same to be appropriate, direct that adjustments be made to:

- the maximum number of Shares subject to the Share Option Scheme; and/or
- the aggregate number of Shares subject to the Option so far as unexercised; and/or
- the subscription price of each outstanding Option.

Where the Board determines that such adjustments are appropriate (other than an adjustment arising from a capitalization issue), the auditors appointed by the Company or such independent financial adviser shall certify in writing to the Board that any such adjustments are in their opinion fair and reasonable, provided that, with respect to any particular grantee:

- any such adjustment shall give the grantee the same proportion of the issued share capital of the Company for which such grantee would have been entitled to subscribe had he exercised all the Options held by him immediately prior to such adjustment;
- no such adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;
- the issue of Shares or other securities of the Group as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment; and
- any such adjustment shall be made in compliance with such rules, codes and guidance notes of the Stock Exchange from time to time.

### *Cancellation of Options not exercised*

The Board shall be entitled for the following causes to cancel any Option in whole or in part by giving notice in writing to the grantee stating that such Option is thereby cancelled with effect from the date specified in such notice (the “**Cancellation Date**”):

- the grantee commits or enters into an agreement to commit a breach of the restriction on transferability of Option;
- the grantee gives a written consent of such cancellation and the Directors approves the same; or
- Chapter 17 of the Listing Rules permits such cancellation.

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### *Termination*

The Company may by resolution in general meeting at any time terminate the operation of the Share Option Scheme. Upon termination of the Share Option Scheme as aforesaid, no further Options shall be offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All Options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

### *Transferability*

The Option shall be personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest (legal or beneficial) in favour of any third party over or in relation to any Option or enter into any agreement so to do. Any breach of the foregoing shall entitle the Company to cancel any outstanding Option or part thereof granted to such grantee to the extent not already exercised.

### *Amendment*

The Share Option Scheme may be altered in any respect by a resolution of the Board except that the following shall not be carried out to the advantage of the grantees or prospective grantees except with the prior sanction of an ordinary resolution of the Shareholders in general meeting, provided always that the amended terms of the Scheme shall comply with the applicable requirements of the Listing Rules: the provisions the Share Option Scheme (i) as to the definitions of “Eligible Persons”, “Grantee”, “Option Period” and “Termination Date”; and (ii) relating to matters governed by Rule 17.03 of the Listing Rules.

### *Value of the Options*

The 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, exercise period, interest rate, expected volatility and other variables. As no option has been granted, certain variables are not available for calculating the value of options. The 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 the investors.

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### 18. Estate duty, tax and other indemnities

#### *Estate duty, tax and other indemnities*

Each of the Controlling Shareholders have, pursuant to the deed of indemnity referred to in sub-paragraph (C) of the paragraph headed “Summary of material contracts” of this appendix, given indemnities in respect of, among other things:

- (a) estate duty or tax which might be payable by any member of the Group, by reason of any laws of the applicable jurisdictions to any member of the Group; and taxation resulting from income, profits or gains earned, accrued or received on or before the date on which all of the conditions stated in the [●] having been fulfilled or waived prior to 8:00 a.m. on [●] 2010 (the “**Fulfilment Date**”), save in the following circumstances:
  - (i) to the extent that full provision has been made for such taxation in the audited combined accounts of the Group for the Track Record Period;
  - (ii) to the extent that the taxation arises in the ordinary course of business of the Group and falls on any of the members of the Group in respect of their current accounting periods or any accounting period commencing on or after the Fulfilment Date;
  - (iii) to the extent that provision or reserve made for taxation in the audited accounts of the members of the Group or any of them for the Track Record Period are finally established to be an over-provision or an excessive reserve provided that the amount established to be the excessive portion of the over-provision or the excessive reserve shall only be applied to reduce the Controlling Shareholders’ liability in respect of taxation up to 31 March 2010; or
  - (iv) to the extent that such taxation arises or is increased by an increase in any taxation claim to the extent that such taxation claim or such increased amount of the taxation claim arises or is incurred as a result of the imposition of taxation as a consequence of any change in law and/or rates of taxation after the Fulfilment Date with retrospective effect.
- (b) any penalties, claims, actions, payments, demands, proceedings, judgments, settlement payments, losses, liabilities, damages, costs, charges, fees, expenses or fines (other than those having been paid or duly and sufficiently provided in the Accountants’ Report set out in Appendix I to this document) which the Group may suffer or incur as a result of directly or indirectly, or in connection with any failure or delay in tax filing in respect of the taxable income derived by any members of the Group on or before the Fulfilment Date;
- (c) any claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses or fines of whatever nature which the Group may suffer or incur, as a result of directly or indirectly or in connection with any non-compliance with the applicable laws, rules, code of conduct or regulations in relation to events occurred on or before the Fulfilment Date;

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- (d) any claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses or fines suffered or incurred by the Group 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 (i) members of the Group, their respective directors and/or licensed representatives or any of them is/are involved; and/or (ii) arises due to some act or omission of, or transaction voluntarily effected by, members of the Group or any of them (whether alone or in conjunction with some other act, omission or transaction) on or before the Fulfilment Date.

[The Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands or Hong Kong is likely to fall on the Group.]

### 19. Litigation

[Neither the Company nor any of its subsidiaries is engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any member of the Group that would have a material adverse effect or the results of operations or financial condition of the Group.]

### 20. [●]

The [●] have made an application on behalf of the Company to the [●].

[●]

[BOCOM International Holdings is a wholly-owned subsidiary of Bank of Communications Co., Ltd. [●] is a wholly-owned subsidiary of BOCOM International Holdings. Pursuant to the Call Option Agreement, BOCOM International Holdings exercised the Options to require Mr. Yip to transfer the Option Shares to BOCOM International Holdings, representing approximately 10% of the total issue share capital of the Company prior to the [●], and approximately 7.5% of the total issue share capital of the Company immediately after the [●] (assuming the [●] is not exercised). Details of the Call Option Agreement and the conversion are set out in the section headed “History, Reorganisation and Group Structure” of this document. Accordingly, [●] does not satisfy the independence criteria applicable to [●] set out in Rule [●] of the [●].]

Bank of Communications Co., Ltd. Hong Kong Branch, being a branch of Bank of Communications Co., Ltd., provides general banking facilities to Bright Smart Securities for the sole purpose of financing the IPO financing business of Bright Smart Securities pursuant to a master staging facility letter (stockbroker/securities margin financier) dated 10 September 2008. [The maximum outstanding loan amount due from Bright Smart Securities to Bank of Communications Co., Ltd. Hong Kong Branch from [●] up to 31 July 2010 was approximately HK\$[2,273.3] million, and there was no outstanding loan amount due from Bright Smart Securities to Bank of Communications Co., Ltd. Hong Kong Branch as at 31 July 2010.]

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Bank of Communications Co., Ltd. Hong Kong Branch also provides to [China Finance] general banking facilities in a maximum amount of approximately [250] million, and a revolving loan in a maximum amount of approximately HK\$[148] million for the purpose of shareholder’s capital injection or shareholder’s loan of Bright Smart Securities during which period Bright Smart Securities is conducting IPO financing. [The maximum outstanding loan amount due from [China Finance] to Bank of Communications Co., Ltd. Hong Kong Branch from [●] up to 31 July 2010 was approximately HK\$[443.9] million.]

### 21. Preliminary expenses

The preliminary expenses of the Company are estimated to be approximately HK\$[●] and are payable by the Group.

### 22. Qualifications and consents of experts

The qualifications of the experts who have given opinions or whose advices and names are referred to in this document are as follows:

| Name                                    | Qualification                                                                                                                                                                                                            |
|-----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| [●]. . . . .                            | Licensed corporation under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO                                                             |
| [●]. . . . .                            | Licensed corporation under the SFO to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO |
| K&L Gates. . . . .                      | Advisers as to Hong Kong law                                                                                                                                                                                             |
| KPMG. . . . .                           | Certified Public Accountants                                                                                                                                                                                             |
| Appleby. . . . .                        | Cayman Islands attorneys-at-law                                                                                                                                                                                          |
| DTZ Debenham Tie Leung Limited. . . . . | Property Valuer                                                                                                                                                                                                          |

Each of [●], [●], K&L Gates, KPMG, Appleby and DTZ Debenham Tie Leung Limited has given and has not withdrawn its written consents to the issue of this document with the inclusion of their reports and/or letters and/or valuation and/or opinions and summaries of opinions (as the case may be) and/or the references to its name or summaries of opinion included in the form and context in which they are respectively included.

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23. [●]

24. [●]

**25. Miscellaneous**

- (a) Save as disclosed in this document, within the two years preceding the date of this document:
  - (i) no share or loan capital of the Company or any of its subsidiaries had been issued or agreed to be issued or was proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
  - (ii) no share or loan capital of the Company or any of its subsidiaries was under option or was agreed conditionally or unconditionally to be put under option;
  - (iii) no commission had been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any share in the Company or any of its subsidiaries; and
  - (iv) no commissions, discounts, brokerages or other special terms had been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries.
- (b) The Directors have confirmed that (i) save as disclosed under the paragraph headed “Net current assets” in the section headed “Financial information” in this document, there has been no material adverse change in the financial or trading positions of the Group since 31 March 2010 (being the date to which the latest audited combined financial information of the Group were made up); and (ii) there had not been any interruption in the business of the Group which might have or have had a significant effect on the financial position of the Group in the 12 months immediately preceding the date of this document.
- (c) The Company has no founder, management or deferred shares.
- (d) No securities of the Group are listed, and no listing of any such securities is proposed to be sought, on any other stock exchange.
- (e) [●]
- (f) The Group had not issued any debentures nor did it have any outstanding debentures nor any convertible debt securities as at the Latest Practicable Date.